CHAPTER - I

INTRODUCTION

1.1 Rationale of the Study

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic political and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. “There is always lack of finance in underdeveloped economy because natural resources are either underutilized or utilized in non-productive sectors. Likewise, underdeveloped countries are not efficient in mobilization of financial resources.

So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Hoarding could be one of the reasons for this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoardings by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth, developing the banking habit among the people, collecting the small-scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against future income, which may improve the economic well being of the borrower.

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern, which is mainly confined to finance for the development of the trade, commerce and industry. Trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Banking is a vital part of national economy and a vehicle for the mobilization of economy’s financial resources and extension of credit to the business and service enterprises.

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

Working Capital plays vital role in the success or failure of any business. Working Capital is lifeblood and controlling nerve-center of any organization. The excess working capital as well as short capital is harmful for business. So, management of working capital is not simple one, with the minor mistakes on decision-making about the adequacy of the working capital, in a concern may put company into liquidation. The financial institutions have to maintain an adequate reserve and supply of funds in the short-term demands by the customer for the fund. Otherwise it causes a serious problem in its operation.

The aspect of working capital concerned with short term financing decision has received much attention in the literature of finance. Because of the earlier emphasis of financial management was more on long term financial decision, which led to the growth and development of many useful theories concerning these decisions as compared to short term financing decision. However in recent years, it has been realized that the area of working capital intricately interwoven with the success or failure of the company. Today one may come across with such situation where shortage of funds for working capital as well as the uncontrolled over expansion of working capital has caused many businesses to fail and in less serve caused, has situated their growth. This aspect of financial management is equally applicable to the small as large-scale business. Keeping there views into consideration this study focuses on working capital management of commercial banks in Nepal with reference to two successful banks.

1.2 Statement of the Problems

Working capital is a crucial capital for any organization. In most enterprises the management of working capital has been misunderstood as the management of money rather that it's efficient utilization. The management of working capital is synonymous to the management to short term liquidity. It has been regarded as one of the conditioning factor in the decision making issues. It is no doubt, very difficult to point out as to how much working capital is needed by a particular business organization. An organization which is not willing to take more financial risks can go for more short term liquidity. The more of short term liquidity means more of current assets and less of current liabilities. The less current liabilities implies less short term financing heading to the lower returns resulting from the use of more high cost long term financing. So it is very essential to analyze and find out problems and its solution to make efficient use of funds for minimizing the risk of loss to attain profit objective.

Working capital management on bank is also difficult as that of manufacturing and non manufacturing business organization. Commercial banks are great monetary institutions which are playing important role to the general welfare of the economy. The responsibilities of commercial banks are more than any other financial institutions. They must be ready to pay on demand a good share of their liabilities without warning or notice. Bank collects funds form different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face the problem for utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on bank which require paying its large amount of liabilities on its depositors' demand without notice. But large amount of idle cash balance also decrease profitability of banks.

As mentioned above, following are the major problems that have been identified for the purpose of this study.

- What are the major components of current assets?
- What are the relationship between different types of current assets and current liabilities?

- Is the composition of working capital appropriate?
- What are the sources of financing of current assets?

1.3 Objectives of the Study

The main objective of this study is to examine the management of working capital of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The specific objectives of this study are as follows:

- To study the position of current assets and current liabilities.
- To analyze the comparative study of working capital management between sample firms.
- To analyze the composition of working capital, assets utilization and profitability of sample firms.

1.4 Significance of the Study

Nepalese commercial banks are operating in the competitive environment. In this situation, banks have to adopt suitable strategies for their existence. They should balance and co-ordinate the different functional areas of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Working capital management is the crux of problem to prepare proper strategy on its favors. The study has multidimensional significance which can be divided into four broader headings;

Its significance to the Shareholders

The study can be helpful to aware the shareholders regarding the working capital management, i.e., liquidity and profitability of their banks. The comparison will help them to identify the productivity of their funds in each of these two banks.

Its significance to the Management

The study can be helpful to go deep into the matters as to why the working capital management of their banks are better (or worse) than their competitors.

Its significance to the Outsiders

Among outsiders, mainly the customers, financing agencies, stock exchanges and stock traders are interested in the performance of banks and the customers (both

depositors and debtors) can identify to which bank they should go. The financial agencies can understand where there is more secured whereas the stock exchange, stock brokers and stock traders can find out the relative worth of the stocks of each bank.

Its significance to the Policy Makers

The study will be helpful to them while formulating the policy regarding commercial banks.

1.5 Limitations of the Study

The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The period covered by the study extends over 5 years from 2060/61 to 2064/65 B.S.

The limitations of this study are as follows:-

- This study has been confined to only two of the joint venture banks, namely SCBNL and HBL.
- The study is mainly based on secondary data.
- The study follows limited tools such as ratio analysis, mean, coefficient of variation, correlation and hypothesis.
- The report has taken only five year data for study from year 2060/61 to 2064/65 B.S.

1.6 Organization of the Study

This study has been divided into five chapters. They are as follows:

Chapter one is the introductory which deals with background of the study, statement of problems, objective of the study, significance of the study and limitations of the study.

The second chapter deals with the review of literatures relating to the working capital management. It includes two parts. The first part deals with the conceptual framework of the study while the second part is related with review of previous studies.

The third chapter is the research methodology which deals with research design, nature and sources of data, population and sample, data gathering procedure and analysis of data.

The fourth chapter deals with the presentation and analysis of relevant data and information using various statistical and financial tools.

The last chapter is concerned with summary, conclusions and recommendations of the study.

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with the review of literature concerned with Working Capital Management. The chapter has been divided into two parts. The first part of the chapter deals with the conceptual framework of the study and the second part is related with review of previous studies i.e. books, articles, dissertations etc.

2.1 Nepalese Financial System and Financial Service

Nepal Bank Limited (NBL) established in 1937 was the first commercial bank in Nepal. Following the establishment of Nepal Rastra Bank (NRB), the central bank of the country in 1956, was a major step towards the evolution and generalization of Nepalese financial system. The institutional network and volume of operations of the financial system has been expanded and diversified with a number of commercial banks which were five in 1990 and are 26 at the present. Similarly a number of other financial institutions came into operation rapidly.

The banking system comprises one central bank and 26 commercial banks the non-bank financial institutions comprise development banks, rural development banks, finance companies, financial cooperatives, non-governmental financial organizations, contractual saving institutions like Employees Provident Fund, Citizen Investment Trust and Insurance Companies, postal saving offices and Nepal Stock Exchange. In addition, there are other quasi-financial institutions such as the Deposit Insurance and Credit Guarantee Corporation, Rural Housing Finance Company etc.

After the openness and liberalization in the financial system, the establishment of banks and financial institutions tremendously increased. The establishment process, in fact took an aggressive move. This type of development can be observed also in insurance services. The institutional network and volume of operations of insurance companies has expanded and diversified enough with the number of companies going up from five in 1990 to 26 at present.

Service sector is a major contributor on Gross Domestic Product (more than 50 percent in and average) and financial service is a major component of this sector. Financial services sector consists basically banking service and insurance service. Such services in Nepal are very important because they provide many opportunities for efficient allocation of resources, utilization, promotion of economic activities, and fair competition and increase in the foreign direct investment. Liberalization of trade in financial services has many positive advantages like economic growth, introduction of advanced financial practices and market efficiency.

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL), was established in Kartik 30, 1994 B.S as a semi-government organization. In Baisakh 14, 2013 B.S., the first central bank named as Nepal Rastra Bank was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by government, named as Rastriya Banijya Bank was established in 2022 B.S under the Banijya Bank act 2021 B.S. In the fiscal year 2039/40, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide cheap banking facilities to the people. The establishment of joint venture banks gave a new horizon to the financial sector of the country. Nepal Arab Bank Limited (NABIL) is the first joint venture commercial bank incorporated in 2041 B.S. In 2043 B.S, the second JVBS, Nepal Indosuez Bank Ltd (Currently Nepal Investment Bank Limited) was established. In the same year, Nepal Grindlays Bank Ltd. (Currently Standard Chartered Bank Nepal Limited) in the form of JVB was also established. But more JVBS came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S. They are Himalayan Bank Ltd. (2049), Nepal SBI Bank Ltd. (2050), Nepal Bangladesh Bank Ltd. (2051), Everest Bank Ltd. (2051) and Bank of Kathmandu (2052) came into existence in chronological order. Under favorable environment, various other banks were established thereafter. In the current scenario, there are 26 commercial banks, 58 development banks, 78 Finance companies, 12 Micro Credit Dev. Banks, 25 Insurance Companies and 5 rural development banks in Nepal (Sources: Quarterly Economic Bulletin of NRB 2008/2009).

In a global prospective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups and services for sharing comparative advantages. A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a special operation (industrial or commercial investment, production or trade). These JVBS came into existence to accelerate the pace of economic development and financial system of the nation.

Proper financial decision making is extremely important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. The working capital management of a bank is different from other types of business enterprises. A bank plays a significant role to fulfill the requirement of working capital of other type of business enterprise. It also needs to efficiently manage its own working capital. Investment in working capital of other business enterprises is a part of current assets of bank's working capital and we can consider deposits and short term borrowings as a part of current liabilities. *(Sources: Banking and Insurance, H.B. Singh, 2063).*

2.2 Brief Profile of Sample Companies

Standard Chartered Bank Nepal Limited

The bank was originally established as a joint venture of Grindlays Bank PLC and Nepal Bank Limited in 2043 B.S. with the shareholding ratio of ANZ Grindlays Bank Limited 50 percent, Nepal Bank Limited 33.34 percent and general public 16.66 percent along with the change of ownership to Standard Chartered, the banking are of SCBNL saw the rise of a new dawn changing the general image of the bank. With this acquisition, Standard Chartered Bank now owns 50 percent share of Nepal Grindlays Bank Limited (NGBL) previously owned by ANZ Grindlays.

With the mission statement "To be the leading international bank in our principal markets", the bank operates through 12 offices and 17 ATMs spread throughout Nepal and focuses mainly one corporate, consumer and commercial banking, providing services for international firms as well. The bank contributed to a large extent in the development of the country by the way of loans to industrial projects, the priority and deprived sectors.

Standard Chartered Bank Nepal Limited, offers a full range of banking products and services in wholesale and consumer banking, catering to a wide range of customers from individuals, to mid-market local corporate to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels and government corporations.

The bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first bank in Nepal that has implemented the Anti-Money Laundering Policy and applied the 'Know Your Customer' procedure on all the customer accounts.

The bank has 377 staff as of the 15th July 2008. The number staff having completed 10 years of service reached 29, completed 15 years of service 85 and 14 staff has completed 20 years of service. This indicates that the bank provides very good working environment to the best of financial sector in the country great emphasis is put on training staff. To improve the skills and knowledge of the staff the bank continues to provide development programs in-house training programs, including on-the-job training and job rotation.

Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation concerned from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services.

The bank has 23 branches and 40 ATMs in all over Nepal. Himalayan Bank has always been committed to providing a quality service to its valued customers with a personal touch. All customers are treated with utmost courtesy as valued clients. The bank wherever possible offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking

technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for further adaptation to new technology. The bank already offers unique services such as SMS banking and Internet banking to customers and will be introducing more services like these in the near future.

2.3 Conceptual Framework of Working Capital Management

Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, or in other words, long term investment and sources of funds, and secondly, current uses and sources of funds. Both of these types of funds play a vital role in business finance.

2.3.1 Concept of Working Capital Management

Working capital refers to the resources of the firm that are used to conduct operations to do day to day work that makes the business successful. Without cash, bills cannot be paid, without receivables; the firm cannot allow timing difference between delivering goods or services and collecting the money to pay for them. Without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets, the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm those items that can be converted into cash within the year. Hence, working capital management is the management for the short term. It is a process of short term decision making regarding the current assets and current liabilities affecting the long term operation of an enterprise. It is a process of planning and controlling the level of mix of current assets of the firm as well as financing these assets. It concludes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall value of a firm.

Gross Working Capital

It is simply called as working capital and refers to the firm’s investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, marketable securities, inventory, accounts receivable and debtors.

Net Working Capital

This is of critical importance to a firm. Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (account payable) bills payable and outstanding expenses *(Pandey; 1992:807-808).*

Another way of defining working capital is that portion of firm's current assets financed with long term fund. Both liquid assets and liabilities are important in working capital management.

Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

2.3.2 Types of Working Capital

There are two types of working capital: Permanent working capital and variable working capital. These working capitals are necessary for any organization for continuous production and sales without any interruption.

a. Permanent (Fixed) Working Capital

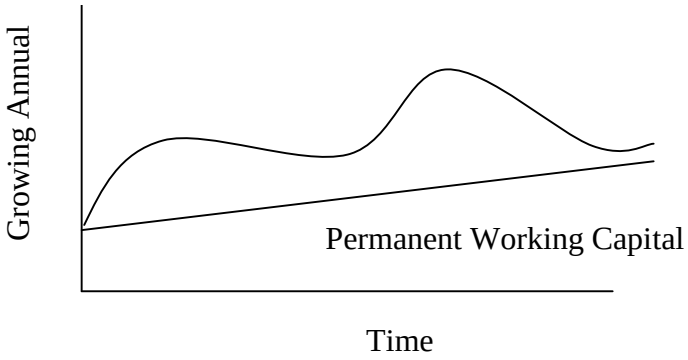
Permanent working capital refers to that level of current assets, which is required on continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and sales functions. This portion of working capital is directly related to the firm's expansion of operation capacity.

b. Variable Working Capital

Variable working capital represents that portion of working capital which is required over permanent working capital. If the nature of production and sales of a firm is directly related to seasonal variations, it should stock extra raw materials, work in progress and inventory of finished goods. Therefore, this portion of working capital depends upon the nature of firm's production relation between labor and management.

Figure 2.1

Variable Working Capital



Sources: I. M. Pandev (1992:808)

The above figure shows clearly about this portion of working capital. If a firm has sound management on this portion of working capital, it can easily win over other competitors in today's competitive and aggressive market.

2.3.3 Working Capital Cycle

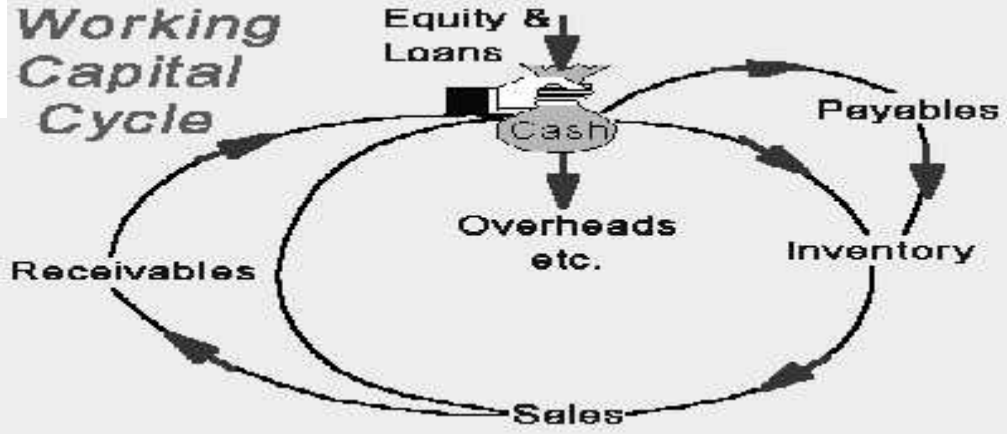
Cash flows in a cycle into, around and out of a business. It is the business's life blood and every manager's primary task is to help keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it doesn't generate surpluses, the business will eventually run out of cash and expire.

The faster a business expands the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

There are two elements in the business cycle that absorb cash - Inventory (stocks and work-in-progress) and Receivables (debtors owing you money). The main sources of cash are Payables (your creditors) and Equity and Loans.

Figure 2.2

Working Capital Cycle



Each component of working capital (namely inventory, receivables and payables) has two dimensions ..... TIME ..... and MONEY. When it comes to managing working capital - TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect money due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence, you could reduce the cost of bank interest or you'll have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales *(www.planware.org).*

If ……..	Then.....
Collect receivables (debtors) faster	Release cash from the cycle
Collect receivables (debtors) slower	Receivables soak up cash
Get better credit (in terms of duration or amount) from suppliers	Increase cash resources
Shift inventory (stocks) faster	Free up cash
Move inventory (stocks) slower	Consume more cash

It can be tempting to pay cash, if available, for fixed assets e.g. computers, plant, vehicles etc. If we do pay cash, remember that this is now longer available for working capital. Therefore, if cash is tight, consider other ways of financing capital investment - loans, equity, leasing etc. Similarly, if we pay dividends or increase

drawings, these are cash outflows and, like water flowing down a plug hole, they remove liquidity from the business *(http//www.planware.org).*

2.3.4 Key Working Capital Ratios

The following, easily calculated, ratios are important measures of working capital utilization.

Ratio	Formulae	Result	Interpretation
Stock Turnover (in days)	Average Stock * 365/ Cost of Goods Sold	= x days	On average, we turn over the value of our entire stock every x days. We may need to break this down into product groups for effective stock management. Obsolete stock, slow moving lines will extend overall stock turnover days. Faster production, fewer product lines, just in time ordering will reduce average days.
Receivables Ratio (in days)	Debtors * 365/ Sales	= x days	It takes us on average x days to collect monies due to us. If our official credit terms are 45 day and it takes us 65 days... why? One or more large or slow debts can drag out the average days. Effective debtor management will minimize the days.
Payables Ratio (in days)	Creditors * 365/ Cost of Sales (or Purchases)	= x days	On average, we pay our suppliers every x days. If we negotiate better credit terms this will increase. If we pay earlier, say, to get a discount this will decline. If we simply defer paying our suppliers (without agreement) this will also increase - but our reputation, the quality of service and any flexibility provided by our suppliers may suffer.

Current Ratio	Total Current Assets/ Total Current Liabilities	= x times	Current Assets are assets that we can readily turn in to cash or will do so within 12 months in the course of business. Current Liabilities are amount we are due to pay within the coming 12 months. For example, 1.5 times means that we should be able to lay our hands on $1.50 for every $1.00 we owe. Less than 1 time e.g. 0.75 means that we could have liquidity problems and be under pressure to generate sufficient cash to meet oncoming demands.
Quick Ratio	(Total Current Assets - Inventory)/ Total Current Liabilities	= x times	Similar to the Current Ratio but takes account of the fact that it may take time to convert inventory into cash.
Working Capital Ratio	(Inventory + Receivables - Payables)/ Sales	As% Sales	A high percentage means that working capital needs are high relative to our sales.
Source: (www.planware.org)			

Other working capital measures include the following:

- Bad debts expressed as a percentage of sales.
- Cost of bank loans, lines of credit, invoice discounting etc.
- Debtor concentration - degree of dependency on a limited number of customers.

Once ratios have been established for our business, it is important to track them over time and to compare them with ratios for other comparable businesses or industry sectors *(http//www.planware.org).*

Sources of Additional Working Capital

Sources of additional working capital include the following:

- Existing cash reserves

- Profits (when we secure it as cash!)
- Payables (credit from suppliers)
- New equity or loans from shareholders
- Bank overdrafts or lines of credit
- Long-term loans

If we have insufficient working capital and try to increase sales, we can easily over-stretch the financial resources of the business. This is called overtrading. Early warning signs include:

- Pressure on existing cash
- Exceptional cash generating activities e.g. offering high discounts for early cash payment
- Bank overdraft exceeds authorized limit
- Seeking greater overdrafts or lines of credit
- Part-paying suppliers or other creditors
- Paying bills in cash to secure additional supplies

Frequent short-term emergency requests to the bank (to help pay wages, pending receipt of a cheque) *(www.planware.org).*

2.3.5 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. So first of all, in working capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions is financing current assets. Any firm has working capital policies regarding to the level of each category of current assets and their financing are discussed in the ensuing part of this section.

1. Current Assets Investment Policy

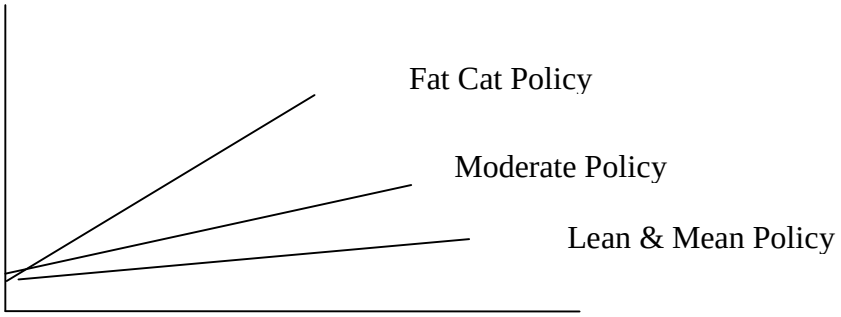
Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three

alternative current assets investment policies, namely, Fat Cat, Lean and Mean and Moderate.

a. Fat Cat Policy

This is also known as relaxed current assets investment policy. It is the policy under which relatively large amounts of cash and marketable securities and inventories are carried, and sales are stimulated by a liberal credit policy which results in a high level of receivables. This also creates the longer receivable collection period. Thus this policy provides the lowest expected return in investment with lower risk *(Weston & Brigham;1996: 344).*

Figure 2.3
Alternative Current Assets Policies



Source: Weston & Brigham;1996: 344

b. Lean and Mean Policy

This is also known as restricted current assets investment policy. This is the policy under which holdings of cash and marketable securities, inventories and receivables are minimized *(Weston & Brigham; 1996:344)*. This policy tends to reduce the policy conversion and receivable conversion cycle. Under this policy firm follows a tight credit policy and bears the risk of losing sales.

c. Moderate Policy

It is the policy that is between the relaxed and restrictive policies. In Moderate policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and returns are moderate in this policy.

2. Current Assets Financing Policy

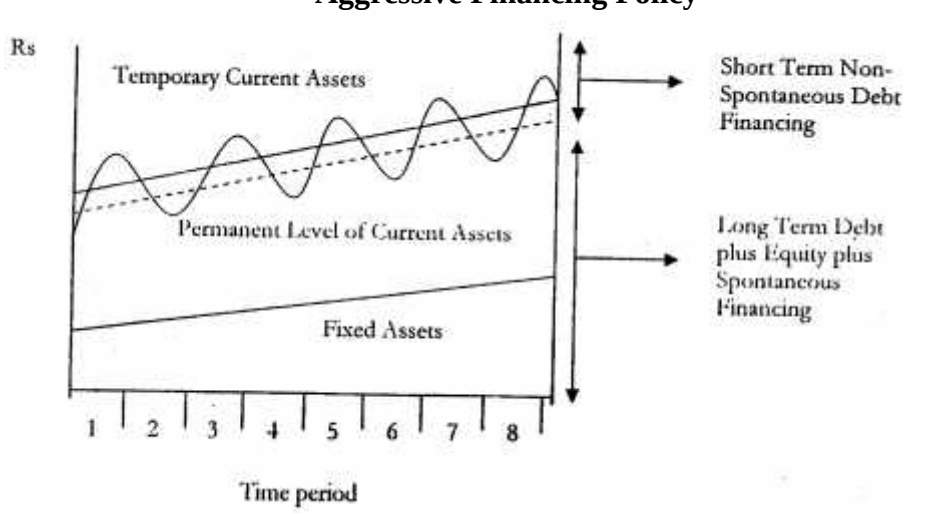
It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the sources of financing of currents. There are three variants, namely, aggressive, conservative and matching policies of current assets financing.

a. Aggressive Policy

In aggressive Policy, all the fixed assets of a firm are financed with long-term capital, but some of the firm's permanent current assets are financed with short-term, non spontaneous sources of fund *(Weston & Brigham; 1996:348.)* In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short- term financing. Figure 2.4 shows that 50% of the permanent current assets are financed through short term financing. In general, interest rate increases with time, i.e., the shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal circumstances, the firm borrows on a short term financing rather than that from long term financing. On the other side, if the firm finances its permanent current assets by short term financing, then it runs the risk of renewing the borrowing again and again. This future interest expenses will fluctuate widely, and it may also be difficult for the firm to raise the funds during the stringent credit policy. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

Figure 2.4

Aggressive Financing Policy



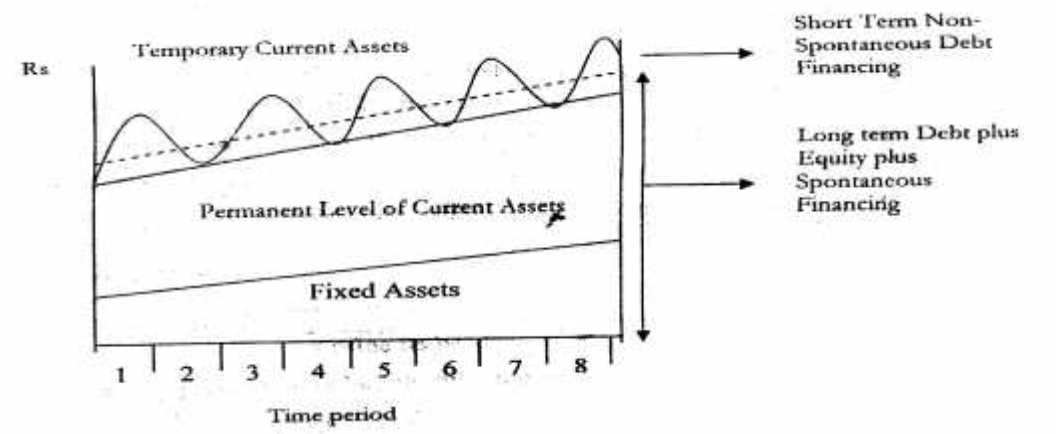
Source: Weston & Brigham; 1996:347

b. Conservative Policy

In conservative policy, the firm uses long term financing to finance not only fixed assets and permanent current assets, but also part of temporary current assets i.e., with short term financing *(Weston & Brigham; 1996:348)*. It means that the firm depends upon the long term sources for financing needs. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities higher interest cost.

Figure 2.5

Conservative Financing Policy



Source: Weston & Brigham; 1996:348

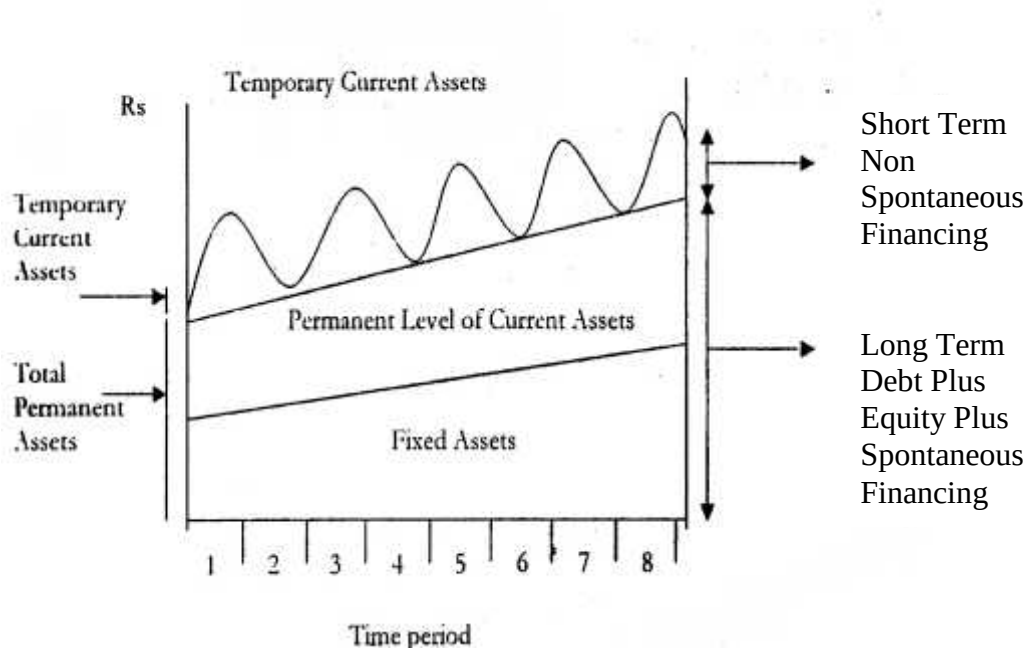
The risk and return are lower than that of aggressive one. The risk adverse management follows this policy.

c. Maturity Matching Policy

It is self-liquidity approach. In this policy, the firm finances the permanent current assets with long term financing and temporary with short term financing. It means that the firm matches the maturity of financing source with an assets useful life. It lies in between the aggressive and conservative policies. It leads to neither high nor low level of current assets and current liabilities. It lies in between a low profitability. Figure 2.6 shows the temporary working capital is financed by short term financing and long term financing. Thus, no working capital is financed by long term funds. Hence, net working capital is zero under this policy.

Figure 2.6

Maturity Matching Financing Policy



Source: Weston & Brigham; 1996:347

2.3.6 Determinants of Working Capital

All the firms, whether public or private, manufacturing or non-manufacturing, must have adequate working capital to survive in competitive market. It should have neither too excess nor too inadequate working capital. But, there are no sets of rules or formulae to determine the working capital requirement of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and changes in environment also affect the working capital. Generally, the following factors affect the working capital requirement of the firm *(Pandey; 1999: 816).*

1. Nature and Size of Business

It depends upon the nature and size of the business. If the size of the firm is bigger, then it requires more working capital. While a small firm needs less working capital. Trading and financial firm require larger amount of working capital relatively to public utilities, while manufacturing concern lies between these two extremes.

2. Growth and Expansion

This also affects the working capital requirement of a firm. A growing firm needs more working capital than those static ones. However, it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital needs.

3. Credit Policy

Working capital requirement depends on terms of sales. Different terms may be followed to different customers according to their credit worthiness. If the firm follows the liberal credit policy then it requires more working capital. Conversely, if firm follows the stringent credit policy, it requires less working capital.

4. Production Policy

If a firm produces seasonal goods, then it sells its products in a certain month of the year. In this situation, it can either confine its production only that period when goods are sold or follow a steady production policy through the year and produce goods at level to meet the peak demand. The former policy does not need more working capital than the latter does.

5. Availability of Credit

Availability of credit facility is another factor that affects the working capital requirement. If the creditors avail a liberal credit terms then the firm will need less working capital and vice-versa. In other words, if the firm can get credit facility easily on favorable conditions, it requires less working capital to run the firm smoothly otherwise more working capital is required to operate the firm smoothly.

6. Manufacturing Cycle

Working capital requirement of an enterprise is also influenced by the manufacturing or production cycle. It refers to the time involved to make the finished goods from the raw materials. During the process of manufacturing cycle, the larger will be working capital requirement and vice-versa.

7. Profit Margin

The level of profit margin differs from firm to firm. It depends upon the nature and quality of product, marketing management and monopoly power in the market. If the firm deals with the high quality product, has a sound marketing management and has enjoyed monopoly power in the market then it earns quite high profit and vice-versa. Profit is sources of working capital pool by generating more internal funds.

8. Price Level Change

Generally, a firm is required to maintain the higher amount of working capital if the price level rises, because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level on working capital position will vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

9. Operating Efficiency

It is also the important factor, which influence the working capital requirement of the firm. It refers to the efficient utilization of available resources at minimum cost. Thus, financing manager can contribute to strong working capital position through operating efficiency. If a firm has strong operating efficiency then it needs less amount of working capital otherwise it requires large amount of working capital *(Pandey; 1999: 817-819).*

10. Level of Taxes

The level of taxes also influences working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulations. But the firm's profit is not constant or can't be predetermined. Tax liability in a sense of short term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital and vice versa.

2.3.7 Need for Working Capital

Working capital is the effective lifeblood and controlling nerve center of every business organization because without the proper control upon it, no business

organization can run smoothly. Thus, it plays a crucial role in the success and failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. We know that firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among the other things. For constant operation of business, every firm needs to hold the working capital components, cash, receivable, inventory etc; therefore, every firm needs working capital to meet the following motives *(Pandey; 1999: 809).*

a. Transaction Motive

Transaction motive require a firm to hold cash and inventories to facilities smooth production and sales operations in regular. Thus, the firm needs working capital to meet the transaction motive.

b. Precautionary Motive

Precautionary motive is the need to hold cash and inventories to guard against the risk of the unpredictable change in demand and supply forces and other factors such as strike, failure of important customers, unexpected slow down in collection of account receivable, cancellation of some other order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet contingencies in future.

c. Speculative Motive

It refers to the desire of a firm to take advantages of the opportunities like opportunities of profit making investment, an opportunity of purchasing raw material at a reduced price on payment of immediate cash, to speculate on interest rate, and to make purchase at favorable price etc. Thus, the firm needs the working capital to meet the speculative motive *(Van Horne & Wachowicz; 1999: 220).*

2.3.8 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. When the growing firm wants to generate sustained

normally require fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of the firm. So the most important function of finance manager is to determine the level of working capital and to decide how it is to be financed. Financing of any assets is concerned with two major factors- cost and risk. Therefore, the financial manager must determine an appropriate financing mix or decide how current liabilities should be used to finance current assets. However, a number of financing mixes area available to the financial manager. He can present generally three kinds of financing.

1. Long Term Financing

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earning and long term debts from financial institution are the major sources of long term financing. Even it includes retained earnings and long term loan from Nepal Industrial Development Corporation and long term other commercial banks.

2. Short Term Financing

Firm must arrange short term credit in advance. The sources of short term financing of working capital are trade credit and bank borrowing.

i. Trade Credit

It refers to the credit that a customer gets from supplies of goods in the normal course of business. The buying firms does not have to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit.

ii. Bank Credit

Bank credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimated by the borrowers and banks are approached with the necessary supporting data. Bank determines the maximum credit based on the margin requirements of the security. The following types of loan are provided by commercial banks.

a. Loan Arrangement

Under this arrangement the entire amount of loan is given credit by the bank to the borrowers account, and the loan is repaid in installments, interest is payables on actual balance outstanding.

b. Overdraft Arrangement

Under this arrangement the borrowers is allowed to overdraw on his current account with the bank up to stipulate limit. Within this limit, any numbers of drawings are permitted. Repayment should be made in short period.

c. Commercial Papers

It is used only by well-established high quality companies. The evidence of debts is an unsecured short term promissory note sold in the money market. It is sold either through dealers or directly to inventories. Besides the above form of credit, bank provide loan against the warehouse receipt, inventory receivable. In our context, most popular sources of short term financing are short term loan from public deposit, which is also a major source of working capital financing in our country.

3. Spontaneous Financing

Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i.e., credit and bills payable) and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short term or long term sources. Thus, the financial manger concentrates his power in short term versus long term financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by the management attitude towards the risk return *(Pandey; 1999: 827).*

2.3.9 Significance of Working Capital Management

The management of working capital is important for several reasons. For one thing, the current assets of a typical manufacturing firm account for over half of its total

assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

For small companies, current liabilities are the principal source of external financing. These firms do not have access to the longer term capital markets, other than to acquire a mortgage on a building. The fast-growing but larger company also makes use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to working capital matters. The management of cash, marketable securities, accounts receivable, accounts payable, accruals, and other means of short term financing is the direct responsibility of the financial manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day-to-day supervision. Unlike dividend and capital structure decisions, we cannot study the issue, reach a decision, and set the matter aside for many months to come. Thus, working capital management is important, if for no other reason than the proportion of the financial manager's time that must be devoted to it. More fundamental, however, is the effect that working capital decisions have on the company's risk, return, and share price *(Van Horne & Wachowicz; 1999:204)*.

Profitability and Risk

Underlying sound working capital management lie two fundamental decision issues for the firm. They are the determination of;

- The optimal level of investment in current assets
- The appropriate mix of short-term and long-term financing used to support this investment in current assets

In turn, these decisions are influenced by the trade-off that must be made between profitability and risk. Lowering the level of investment in current assets, while still being able to support sales, would lead to an increase in the firm's return on total assets. To the extent that the explicit costs of short-term financing are less than those of intermediate and long-term financing, the greater the proportion of short-term debt

to total debt, the higher is the profitability of the firm. Although short-term interest rates sometimes exceed long-term rates, generally they are less. Even when short-term rates are higher, the situation is likely to be only temporary. Over an extended period of time, we would expect to pay more in interest cost with long-term debt than we would with short-term borrowings, which are continually rolled over (refinanced) at maturity. Moreover, the use of short-term debt as opposed to longer term debt is likely to result in higher profits because debt will be paid off during periods when it is not needed.

These profitability assumptions suggest maintaining a low level of current assets and high proportion of current liabilities to total liabilities. This strategy will result in a low, or conceivably negative, level of net working capital. Offsetting the profitability of this strategy, however, is the increased risk to the firm. Here, risk means jeopardy to the firm for not maintaining sufficient current assets to:

- Meet its cash obligations as they occur
- Support the proper level of sales (e.g., running out of inventory) *(Van Horne & Wachowicz; 1999:204-205).*

2.4 Review of Major Empirical Studies

There are various studies concerned with Working Capital Management have been documented in internal arena. The books written by different author entitled to review as under:

2.4.1 Review of Various Books

Hampton & Wagner (1983) published a book entitled working capital management. The book is divided in eight main chapters where the first topic describes about the working capital policies, nature of working capital and working capital strategies. In the second topic, there contain banking system and under this topic there contain sub-topic of money and its supply, features of U.S commercial banking, measures of U.S money supply, money creation. Similarly in the third topic managing disbursements & collections are given. They set six sub-topics of cash management system, managing collections, and disbursement cash management problems, case of Chicago National Bank & Olean National Corporation. There after in the fourth chapter they

have prepared commercial bank packages for cash management. In the third part of the book, they have established cash management where cash forecasting techniques are used. By the use of cash flow analysis, economics of short-term financing & sources of near term financing are prepared under the working capital analysis. In the fifth topic, there contain credit & collections by the analyzing credit capacity of customers, developing credit policies, collection policies and government regulations. Similarly; the sixth part include about the concept of consumer loans, small business loans and credit scoring system. At the last part, the book describes about the inventory management its other important planning implementations through working capital ways.

The well known professors **Weston and Brigham** (1984) have given some theoretical insights into working capital management after their various research studies on it. The bond conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital in any enterprise and naturally to this study as well. They explain, in the beginning, concept of working capital, working capital policy, requirement for external working capital financing. In the next chapter, they have dealt with the various components of working capitals and their effective management techniques. The components of working capital they have dealt with are cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management models. They have also explained the major sources and forms of short term financing, such as trade credit, loan from commercial banks and commercial paper.

Van Horne (1994) has categorized the various components of working capital, i.e., liquidity, receivable and inventory and current liabilities and grouping them according to the way they affect valuation. He has also described the different methods for efficient management of cash and marketable securities and various models for balancing cash and marketable securities. For the management of receivable, different credit and collection policies have been described and various principles of inventory have been examined for inventory management and control. He has written different types of books, articles and other facts relating to financial terminology. He is dealing about working capital management in broad version. He has explained all short-term assets. Working capital management usually described as involving the administration

of these assets namely cash, marketable securities, receivables, inventories and the administration of current liabilities.

Archer, Choate and Rocette (1983) published a book of financial management. In this book they define the working capital management as a process of planning and controlling the level and mix of the CAs of the firm as well as financing these assets. Specifically, working capital management requires financial managers to decide what quantities of cash, other liquid assets, accounts receivable and inventories the firm will hold at any points in time. In this definition, the management for working capital is the main task for financial manager and he has to be care in the composition and activities of current assets. That is, in short, it requires planning and controlling the level and mix of these assets.

The distinguished Indian professor **Pandey** (1999) has described some conceptual ingredients, which are based on his various research studies. He has described various aspects of working capital management. He has divided working capital management into five chapters. The first chapter deals with the concept of working capital, need for working capital, determinants of working capital, issues in working capital management, estimating working capital needs, and financing current assets. In the second chapter, he has described the management of receivable, in which he has dealt with goals of credit management, optimum credit policy, aspects of credit policy, and credit producers for individual accounts. In the third chapter on inventory management, he has described the need to hold inventories, objectives of inventory management, inventory management techniques, selective inventory control technique and financial manager's role in inventory management. In the fourth chapter, he has described the management of cash and marketable securities, where he has dealt with facets of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities. Lastly, in the fifth chapter, he has described the financing of working capital with various methods such as trade credit, bank finance and commercial paper.

Chandra (2001) wrote a book called financial management: Theory and Practice. He has included a topic of working capital management in overall consideration. Net

working capital is the difference between current assets and current liabilities. Management of working capital refers to the management of current assets as well as current liabilities. The major thrust is understandable because current liabilities arise in the context of current assets. It may be mentioned here that it is an accounting concept with little economic meaning. It makes little sense to say that a firm manages its net working capital, what a firm really does is to take decisions with respect to various current assets and current liabilities.

Other well known authors **Khan and Jain** (1993) have also shed the light on working capital management. Working capital management is concerned with the problem that arises in attempting to manage the current assets, the current liabilities and interrelationship that exist between them. The term current assets refers to those assets which in the ordinary course of business can be or will be turned into cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, accounts receivable and inventory. Current liabilities are those liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business within a year, out of the current assets or earning of the concern. The basic current liabilities are account payable, bills payable, bank overdraft and outstanding expenses. The goal of working capital management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. This is so because if the firm cannot maintain to satisfactory level of working capital, it is likely to become insolvent and may be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must manage efficiently in order to maintain the liquidity of the firm while not keeping a too high level of any one of them. Each of the short term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is therefore, the main theme of the theory of working capital management.

2.4.2 Review of Major Nepalese Studies

Shrestha (1982) in his article *"Working Capital Management in Public Enterprises"* has studied working capital management of ten selected public enterprises. Specially,

he has focused on the liquidity turnover and profitability position of those enterprises. In this analysis, he found that four public enterprises have maintained adequate liquidity position, two public enterprises have excessive and remaining others public enterprises had failed to maintain desirable liquidity position. On the turn over side, two public enterprises had negative working capital turnover, four had adequate turnover, and one had higher turnover on net working capital. He had also found that out of ten public enterprises six were operating in loss while only four were setting some percentage of profit. With the reference of his findings, he has brought certain policy issues. This is as lack of suitable financial planning, negligence of working capital management, deviation between liquidity and turnover of assets inability to show the positive relationship between turnover and return on net working capital. At the end, he has made some suggestive measures to overcome from the above policy issues. These are identification of management information system, positive attitude towards risk and profit and determination of right combinations of short term and long term sources of funds to finance working capital needs.

Pradhan (1988), in his article *"The Demand for Working Capital by Nepalese Corporation"* has analyzed the selected nine manufacturing public corporation with the 12 years data from 1973-1984. Regression equation has been adopted for the analysis. His study has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous findings. A lot of controversies exist respect to the presence of economics of scale, roles of capital cost, capacity utilization rates and the speed with which actual cash and inventories and adjusted to describe cash and inventories respectively. To pooled regression, result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression result suggests strongly that the demand for working capital and its components is function of both sales and their capital cost. The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital is doubtful.

Acharya (1985), in his article *"Problems and Implement in the Management of Working Capital in Nepalese Enterprises"* has defined the two major problem i.e.

operational problems and organizational problems, regarding the working capital management in Nepalese public enterprises. The operational problems; he found are increase of current liabilities than current assets, not allowing the current ratio 2:1 and slow turnover of inventories, similarly, change in working capital in relation to fixed capital had very low impacts over the profitability than transmutation of working capital employed to sales, absent of apathetic management information system. Break-even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered as managerial job.

In the second part, he has listed the organizational problems in the public enterprises. In most of the public enterprises, there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly very few public enterprises have been able to present their capital requirement, functioning of finance department is not satisfactory and some public enterprises are even facing the under utilization of capacity.

Shrestha (1995) in her article *"Portfolio Behavior of Commercial Banks in Nepal"*, selecting two local commercial banks, three joint-venture banks and one development bank as a sample for the study. Some major findings of her study are given below.

- Total deposits have been the major sources of fund for all the banks.
- Capital sand reserve funds do not seem to have changed much over the year.
- The user of fund analysis shows that the resources of commercial banks are allocated in the liquid funds, investment on securities, loans and advances. Bills purchased and discounted.
- Among the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discounted the least over the year.
- The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

Mahat (2004) in his article, *"Spontaneous Sources Working Capital Management"* has defined the three major sources of working capital i.e., equity financing, debt

financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provision and accrued expenses.

Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will better to working capital in order to improve its performance.

Consequently, in a changed economic scenario, every company should realize that inability to manage working capital might land them in a vicious circle that can be hard to get out from. It is indeed essential for industries to tighten their belts and checks their financial stability to face and stand in forthcoming competitive day.

2.4.3 Review of Master Degree of Thesis

There are various thesis concerned with working capital Management. Some thesis entitled to review as under:

Dhungana (2009) has conducted research on "Working Capital Management of Unilever Nepal Limited". The main objectives are:-

- To assess the liquidity and profitability position of UNNL.
- To determine the structure and utilization of working capital of ULNL.
- To know the working capital policy of ULNL.
- To provide appropriate recommendation.

The major findings of this study are:-

- Current structure levels of ULNL arenot stable.
- Current assets turnover ratio has found increasing trend.
- The company has not been able to convert current assets quickly in cash in order to meet current liabilities. The current ratio and quick ratio revealed and unsatisfactory liquidity position of ULNL and thereafter to increase the financial position for working capital.
- ULNL is following moderate working capital financing mix policy.

Shrestha (2007) has done a research on *"A Study on Working Capital Management of Nepal Lube Oil Limited"*. The major objectives of this study are as follow.

- To examine the working capital position of NLOL.
- To examine the structure of working capital.
- To assess the financial liquidity position of the NLOL.

The major findings of this study are as follow.

- The company had lesser participation of fixed assets in total assets.
- Cash holds of the company was relatively a small proportion total assets and inventory held largest portion indicating un sounded inventory management.
- The company has insufficient in collecting receivable.

Major recommendations of this study are;

- NLOL management determines certain rate of return on its investment and setup sales target.
- The company should always concern about the current assets and current liabilities and regarding check should make.
- This study has also given the advice that the company should give attention to manpower planning should avoid both under and over staffing.

Lamsal (2004) has conducted research study on "A comparative study of working capital management of NABIL and Standard Chartered Bank Nepal Limited". The main objectives are:-

- To study the current assets and current liabilities and their impact on liquidity and profitability.

- To analyze the liquidity, assets utilization, long term solvency and profitability position of both banks.
- To analyze the comparative study of working capital management between NABIL and SCBNL.

Based on his findings, the Standard Chartered should seriously adjust its policy of investment on loan and advances with collected funds and increase their proportion of loan and advances in total current assets. Fixed deposits and saving deposits turnover position are also not satisfactory on both banks. Therefore, NABIL as well as SCBNL should give proper attention on collection of over dated loan and advances and utilization of idle fund as well as loan and advances. Interest earned to total assets ratio is higher on NABIL but net profit ratios are less than SCBNL. It is due to higher cost on NABIL. By adopting the matching working capital management policy instead of adopting conservative working capital policy NABIL as well as SCBNL could improve in its profitability in the short run as well as long run.

The major findings of his study were:

- The major components of current assets in NABIL and SCBNL are cash and bank balance, loan and advance and government securities.
- The liquidity position of SCBNL is better than NABIL.
- The turnover position of NABIL has better than SCBNL. The NABIL has better utilization of deposits in income generating activity than SCBNL.
- Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.

Net profit to total assets ratio and net profit to total deposit ratios are always higher on SCBNL than NABIL. Cost of services to total assets ratio of NABIL is always higher than the same of SCBNL on the study period. The average value of interest earned to total assets ratio of NABIL is higher than SCBNL.

Shrestha (2003) has carried out a study, entitled "*A study on Working Capital Management with respect to National Trading Limited and Salt Trading Corporation Limited*". Her main objective is to present overall picture of working capital of

National Trading Limited and Salt Trading Corporation Limited. The major findings of the study are as follows:

- The Current Assets to Total Assets of NTL and STCL both are in fluctuating trend.
- The investment in current assets is high in both of the trading companies with respect to its total assets and net fixed assets.
- Cash and bank balance holds the highest portion followed by inventory in NTL whereas cash and bank balance holds the least portion in STCL and inventory holds the highest portion.
- The turnover position of the NTL and STCL are in fluctuating trend.
- The liquidity position of the STCL is satisfactory and favorable in comparison to the liquidity position of the NTL.

Similarly, **Subedi (**2003) has carried out a study "*Working Capital Management of Manufacturing Companies Listed in NEPSE*". His main objective is to examine the working capital policy of Nepalese manufacturing companies listed in Nepal Stock Exchange Limited. He has identified the following points as major findings:-

- There is wide variation of the current assets within individual manufacturing companies.
- The ratio of cash to current assets is widely varied among manufacturing companies during the study period from 1997 to 2001.
- The overall company average of receivable to current assets ratio is 16 percentages.
- There is wide variation in the ratio of inventory to current assets among the manufacturing companies.
- There is no consistency in the company average of current assets to total assets in manufacturing companies.
- The liquidity position of Nepalese manufacturing companies is not similar among different companies.

Shrestha (2001) has carried out his research on "*A study on working capital management of Dairy Development Corporation*". The main objective of the study is

to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of his study are as follows:-

- The major components of current assets in DDC are inventory, cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion respectively in each year.
- The company's investment in the form of working capital has been increasing. The average investment in current assets is lower with respect to net fixed assets during the study period and DDC has no clear vision about the investment in current assets to fixed assets portion.
- The average receivable turnover and ACP is in fluctuating trend during the study period.
- There is ineffective liquidity position and unsatisfactory profitability ratio in DDC.
- The overall return position of DDC is negative i.e. not in favorable condition. It is because of inefficient utilization of CA, TA and shareholders' wealth.

K.C. (2000) has conducted research on "*Comparative study of Working Capital Management of Nepal Bank Limited and Nepal Arab Bank Limited*". The major objectives of the research are:-

- To review the related literature of recent development in working capital management.
- To analyses the comparative study of working capital management of NBL and NABIL.
- To study the current asset and current liabilities and their impact and relationship to each other of NBL and NABIL.

Based on his findings, he has recommended that NBL should reduce or replace its fixed deposits by collecting higher amount of short term deposits. NBL as well as NABIL should give proper attention on collection of over-dated loan and advances and utilization of idle fund as loan and advances. NBL should reduce its cost through reducing high cost deposit, and operate in a proper way so that it can have least operating cost which further maximize its profitability and maximize share holders return. Both banks should adopt the matching working capital management policy

instead of adopting conservative working capital policy. The major findings of his study were:

- The major components of current assets in NBL and NABIL are cash, bank balance, loan advances and government securities.
- Out of the major three current assets components, cash and bank balance holds the smallest portion in NBL. On the other hand, government securities hold the smallest portion in NABIL. The interest income of NBL was better than NABIL.
- The trend of quick ratio, cash and bank balance to deposit ratio, and cash and bank balance to deposit ratio, and cash and bank balance to current, margin and other deposit ratios of NBL and NABIL are decreasing. The liquidity position of NBL was always better than NABIL.
- Fixed deposit to total deposit ratio of NBL were always higher than same of NABIL for the study period.
- The turnover position of NBL are in fluctuating trend but turnover position of NABIL are decreasing in first three years then increasing in last two years of study period. NABIL has the better utilization of deposits in income generating activity than NBL. Also the NABIL has better investment efficiency on loan and advance.
- Large portion of long term debt is used in current assets of both banks but relatively it is higher on NBL than NABIL. Both banks follow conservative working capital policy but NBL has more conservative working capital policy than NABIL. Due to more conservative working capital policy, risk of insolvency is lesser but cost of fund is higher on NBL than NABIL.
- The profitability position of NABIL is far better although NBL earned higher interest than NABIL.

Pathak (1994) has done a research on "An Evaluation of working capital management of Nepal Lube Oil Limited". The main objective of his study is to apprise the working capital management of NLOL and to study the relationship between sales and different variables of working capital. To achieve these objectives, he has taken five-year study period and applied the secondary data.

He found the current assets with respect to total assets are in increasing trend year after year during the study period. It has occupied high portion than fixed assets. Investment on current assets has affected on investment on total assets. According to him, the growing tendency of investment over current assets could have adverse effects in NLOL's wealth maximization goal in the long run.

According to the conclusion of his study, the major findings were:

- The company had lesser participation of fixed assets in total assets.
- Cash holds of the company was relatively small portion of total assets and inventory held largest portion indicating unsound inventory management.
- The company was inefficient in collecting receivables.
- Receivables were not affected by sales.
- Current assets did not depend upon the volume of cash and receivables however significance relation between proportion of current assets and total asset, current asset and fixed asset, current assets and current liabilities and quick asset and current liability was.

Shrestha (1992) has carried out "*A Comparative Study of Working Capital Management in Bhaktapur Brick Factory and Harishiddhi Factory*". His main objective is to focus on the components of working capital cash, inventory, receivable and current liabilities. He had done comparative assumed of WCM of BBF and HBF. He had used financial ratios as a major tool of analysis. In addition to this, he had used mean, index, standard deviation and coefficient of variation. The major findings of his study are as follows:

- There is no proper relationship between liquidity and profitability of two brick factories.
- Both Brick factories have followed various working capital. There is no good combination between fixed capital and working capital.
- BBF has been seriously suffered from negative return whereas HBF has generated positive return. However, both factories profitability position is not satisfactory.
- Overall management and working capital is not strong in both brick factories.

Joshi (1986) has conducted a study entitled "*A Study on Working Capital Management of Birat Nagar Jute Mill Ltd*". The main objective of his study is to show the composition of working capital and relationship between working capital and working capital components. To fulfill these objectives, he has taken five-year study period and used secondary data. He found out that inventory, cash and bank balance, receivable and components of working capital. The major portion of current asset has been occupied by inventory and cash, which have not been efficiently managed. The company has relied heavily on bank support for meeting additional funds without making the best utilization of realized funds. Receivable turnover is in favorable condition. Collection period is also favorable. It means the company can change in cash in very short period.

The major findings of the study were:

- Inventory held major share of current assets followed by debtors and very negligible cash balance.
- The company held poor liquidity position and was financed by short term sources (short term bank credit).
- The company had not earned sufficient profit even to pay the interest on short term loans.

2.5 Research Gap

Many research studies have been conducted by the different students, experts and researchers about working capital management. There have been found numerous research studies on financial companies and public enterprises regarding working capital. Some studies are related to a case study of a single company and some others are comparative in nature. But the comparative study of working capital management between two financial companies can be hardly found. From the review of related studies no one study have been found (working capital management) as a comparative study in the context of Standard Chartered Bank Nepal Limited (SCBNL) and Himalayan Bank Limited (HBL). The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools. Thus the research study made on "A comparative study of

working capital management of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited" will be an effort to analyze on detail about working capital management of the two banks as a comparative study in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter is concerned with the research methodology employed in the study. Research Methodology describes the methods and process applied in the entire aspect of the study. Thus, this chapter deals with the research design, nature of data, data gathering procedure, population and samples, and analysis tools.

3.1 Research Design

This study aims to portray accurately upon the working capital (or current assets and current liabilities) and its impact on overall financial position of two banks under consideration, namely, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The research methodology followed for this study is basically descriptive cum exploratory.

3.2 Population and Sample

There are 26 joint venture commercial banks listed in NEPSE stock exchange up to July 2009 and all these commercial banks are population of study. Among them SCBNL and HBL have been selected as samples for the study.

3.3 Nature and Sources of Data

The data used in this study are fully secondary in nature. Published annual reports of the concerned banks are taken as basic source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazines, journals, articles, reports, bulletins, data from Nepal Stock Exchange and Nepal Rastra Bank, Central Bureau of statistics, related website from internet etc. as well as other supplementary data and various economic surveys are also used.

3.4 Analysis of Data

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios, percentages, mean, standard deviations, and coefficients of variations are then calculated and presented in the

tables. To study the relationship between two or more variables, correlation coefficients are also calculated. In order to know about the sources and applications of the fund, funds flow statement is prepared. Likewise, trend analysis is also used to know the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.4.1 Financial Tools

Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements. It helps the related parties to spot out the financial strength and weakness of the firm. The financial tools used in this study are as follows:

i. Liquidity Ratio

This ratio measures the liquidity position and short term solvency of the firm indicating the company's ability to meet short term obligation. The current ratio and quick ratio measure the liquidity position of the company. *(Pradhan; 2000:53).* Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. One of the main objectives of working capital management is to maintain good liquidity position.

The liquidity ratios calculated in this study are as follows:

a. Current Ratio

Current Ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short term solvency position of the bank. The current ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

b. Quick Ratio

Quick ratio is used to measure the ability of concerned firms to pay current obligation (Short term) without depending on other liquid assets of current ratio. It provides

relationship between quick assets with current liabilities. This quick ratio can be found out by dividing the total quick assets by total liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick or Liquid Assets}}{\text{Current Liabilities}}$$

c. Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposit)

This ratio shows the ability of banks immediate funds to cover their (Current margin, call and saving) deposits. It can be calculated by dividing cash and bank balance by deposits (excluding fixed deposits). The ratio can be expressed as:

$$\text{Balance to Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit (Excluding Fixed Deposit)}}$$

d. Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long term and high interest charge bearing deposit. Although a high cost liability, increasing fixed deposits is subject to an additional advantage if utilized properly. Sufficient fixed deposits enable banks to grant long term loan to their clients at higher interest rate. This ratio is calculated in order to find out the proportion of total deposit that has higher interest charge bearing, which is expressed as follows:

$$\text{Fixed Deposit to Total Deposits Ratio} = \frac{\text{Fixed Deposits}}{\text{Total Deposits}}$$

e. Savings Deposit to Total Deposit Ratio

Saving deposit is an interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It calculated by dividing the total amount of savings deposits by the amount of total deposits which can be expressed as follows:

$$\text{Savings Deposit to Total Deposit Ratio} = \frac{\text{Savings Deposits}}{\text{Total Deposits}}$$

ii. Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio indicates how quickly certain assets are converted into cash.

a. Loans & Advances to Total Deposit Ratio

The ratio assesses to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans and advances. It is computed by dividing the total amount of loan and advances to total deposit fund.

$$\text{Loans \& Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

b. Loan & Advances to Fixed Deposit Ratio

The ratio measures how much amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are interest bearing long term obligations where as loan and advances are the major sources of investment in generating income for commercial banks. It is calculated as follows:

$$\text{Loans and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

c. **Loan & Advances to Savings Deposit Ratio**

This ratio is also employed for the purpose of measuring utilization of savings deposits in generating revenue by giving loan and advances to the client. This ratio indicates how much short term interest bearing deposits are utilized for income generating purpose. The formula for this ratio is as follows:

$$\text{Loans and Advances to Savings Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Savings Deposit}}$$

iii. Profitability Ratio

The profitability ratio measures the operating profitability and reflects the overall efficiency and effectiveness of management *(Pradhan; 2000:53).*

The profitability ratios calculated in this study are:

a. Interest Earned to Total Assets Ratio

This ratio is used to determine total interest earned from investments over the total assets of a firm. It can be computed as follows:

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

b. Net Profit to Total Assets Ratio

Profit to total asset ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio is calculated by dividing the amount of net profit by the amount of total assets employed. Hence,

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

c. Net Profit to Total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposits. Deposits are mobilized for investment, loan and advances to the public in generating revenue. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized.

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits}}$$

d. Cost of Services to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. Cost of services to total assets ratio is useful in measuring the utilization of assets with cost of services. The ratio can be expressed as:

$$\text{Cost of Services to Total Assets Ratio} = \frac{\text{Cost of Services}}{\text{Total Assets}}$$

3.4.2 Statistical Tools

The relationship between different variables related to the study topics were also drawn out using statistical tools. The statistical tools employed in this study are:

i. Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by:

$$\bar{X} = \frac{\sum X}{N}$$

$\bar{X}$ = Arithmetic Average,

$\sum X$ = Sum of values of all terms, and,

N = Number of terms

i. Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is represented as:

$$\sigma = \sqrt{\frac{\sum d^2}{n}}$$

Where,

σ = Standard deviation,

$\sum d^2$ = Sum of squares of the deviations measured from the arithmetic average

n = Number of items

ii. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater the risk relative to the average. Mathematically,

$$CV = \frac{\sigma}{\bar{X}}$$

Where,

CV = Coefficient of Variation

σ = Standard Deviation

$\bar{X}$ = Arithmetic Average

iii. Coefficient of Correlation

Correlation is a statistical tool which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between to sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r, the coefficient o correlation is +1, there is perfect relationship between two variables and

vice-versa. When r is 0, there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below:

$$r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

Also, the test of significance of correlation coefficient has been done in this study. In order to test whether the correlation coefficient is significant to the correlation between the two variables, paired sample t-test has been applied at the standard significance level of 5%. If calculated value of t is greater or equal to its tabulated value, correlation is significant or else it is not significant. The formula for the calculation of t value is,

$$t = \frac{r(\sqrt{n-2})}{\sqrt{1-r^2}}$$

iv. Trend Analysis

Trend Analysis is an analysis of financial ratio over time used to determine the improvement of determination of its financial situation. The trend line is represented by following equation.

$Y_c = a + bx$, where,

Y_c = Estimated value of Y for given value of x in coordinate axes,

A = Y intercept of mean of Y value,

B = slope of the line or rate of change

X =variable in time axis

To find the values of a & b, we have to solve the following equations:

$\sum Y = Na + b \sum X$ (1)

$\sum XY = a \sum X + b \sum X$ (2)

Where, N = Number of years

To make calculation easier, the deviation of the independent variable (i.e. time) are taken from the middle of the time period so that $\sum X=0$, then the above two equation change to:

$\sum y = na$ therefore, $a = \frac{\sum y}{n}$

And $\sum xy = b\sum x^2$ therefore, $b = \frac{\sum xy}{\sum x^2}$

v. Test of Hypothesis

A hypothesis is a conjectural statement of the relation between two or more variables. Hypothesis is always in declarative sentence form and they relate either generally or specifically, variables to variables. There are two criteria for 'good' hypothesis and hypothesis statement. One hypothetical statement is about the relations between variables. Second hypothesis carries a clear implication for testing the stated relation. These criteria mean that hypothesis statement certain two or more variables that are measurable and they specify how they are related.

As Stated in Chapter one, Some Conceptual Frame Work of null and alternative Hypothesis between SCBNL and HBL in various variables are formulated and tested as follows:

For the study some set of null hypothesis have been formulated and tested.

a. H_0: There is no significant difference in composition of working capital between SCBNL and HBL.

   H_1: There is significant difference in composition of working capital between SCBNL and HBL.

b. H_0: There is no significant difference in liquidity position between SCBNL and HBL.

   H_1: There is significant difference in liquidity position between SCBNL and HBL.

c. H_0: There is no significant difference in Profitability position between SCBNL and HBL.

   H_1: There is significant difference in Profitability position between SCBNL and HBL.

To test the validity of our assumption, if sample size is less than 30, t-test is used. For applying t-test in the context of small sample, the t-value is calculated first and compared with the table value of t at a certain level of significance (say on 5%) for given degree of freedom. If calculated value of t exceeds the table value, we infer that the null hypothesis is rejected i.e., the difference is significance at 5% level of significance. But if t is less than the concerning table value of t, the null hypothesis is accepted i.e., the difference is not treated as significant.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter implies the presentation and analysis of data. The chapter has been divided into two sections. The first section includes the presentation and analysis of data collected from various secondary sources whereas the second section includes the major findings of the study.

4.2 Composition of Working Capital

To operate the business, different kinds of assets are needed. For day-to-day business operation, different types of current assets are required. The main components of current assets at SCBNL and HBL are cash and bank balance, loan and advances and investment on government securities. Miscellaneous current assets are also a component of current assets. Prepaid expenses, outstanding incomes, for example, interest receivable, and other current assets are included on miscellaneous current assets.

Table 4.1 and 4.2 show the amount of cash and bank balance, loan and advances, government securities and miscellaneous current assets of SCBNL and HBL respectively for the study period.

Table 4.1

Current Asset Components of SCBNL

(Rs. in Million)

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2060/61	4,241.76	6,410.24	7,948.22	4,894.41	23,494.63
2061/62	3,370.81	8,143.21	7,203.07	3,091.73	21,808.82
2062/63	3,253.51	8,935.42	8,644.86	4,825.90	25,659.69
2063/64	3,782.17	10,502.64	7,107.94	7,033.41	28,426.16
2064/65	4,247.78	13,718.60	8,137.61	7,000.00	33,103.99

Sources: Appendix- 1

Table 4.2

Current Asset Components of HBL

(Rs. in Million)

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2060/61	2,370.09	11,951.87	3,431.73	6,674.42	24,428.11
2061/62	2,455.55	12,424.52	5,469.73	7,159.16	27,508.96
2062/63	2,722.63	14,642.56	5,144.32	6,370.16	28,879.67
2063/64	3,467.36	16,997.99	6,454.87	5,951.43	32,871.65
2064/65	1,966.67	19,497.52	7,471.66	6,424.05	35,359.91

Sources: Appendix- 3

Based on table 4.1 & 4.2, total amount of current asset components of HBL is seen higher than that of SCBNL. Due to unequal volume of the components, percentage of components of current assets is required for comparative analysis. The percentage composition of current assets to total current assets i.e. cash and bank balance, loans and advances, investment in government securities and miscellaneous current assets of SCBNL as follows:

Table 4.3

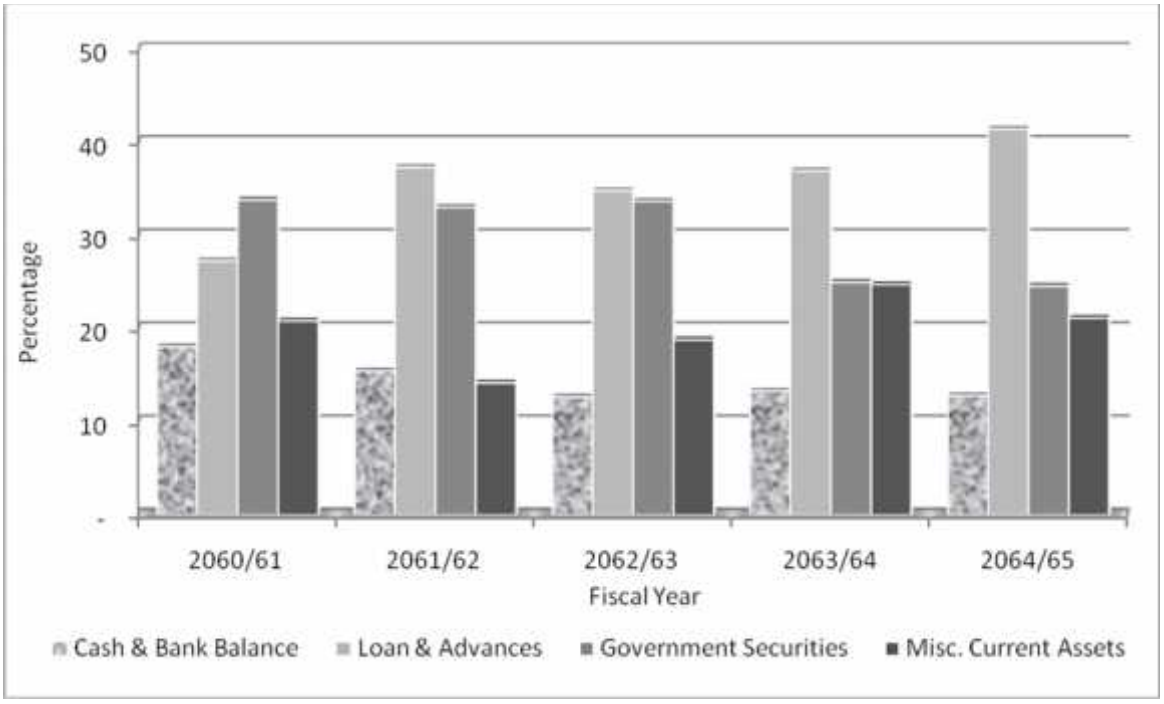
Percentage Components of Current Assets of SCBNL

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2060/61	18.05	27.28	33.83	20.84	100.00
2061/62	15.46	37.34	33.03	14.17	100.00
2062/63	12.68	34.82	33.69	18.81	100.00
2063/64	13.31	36.95	25.00	24.74	100.00
2064/65	12.83	41.44	24.58	21.15	100.00
Average	14.47	35.57	30.02	19.94	100.00
Std. dev.	2.05	4.65	4.29	3.46	
C.V	0.14	0.13	0.14	0.17	

Sources: Appendices 8, 9, 10, and 11

Figure 4.1

Bar Diagram of Percentage Composition of SCBNL's Current Assets



The percentage composition of current assets to total current assets i.e. cash and bank balance, loans and advances, investment in government securities and miscellaneous current assets of HBL are as follows:

Table 4.4

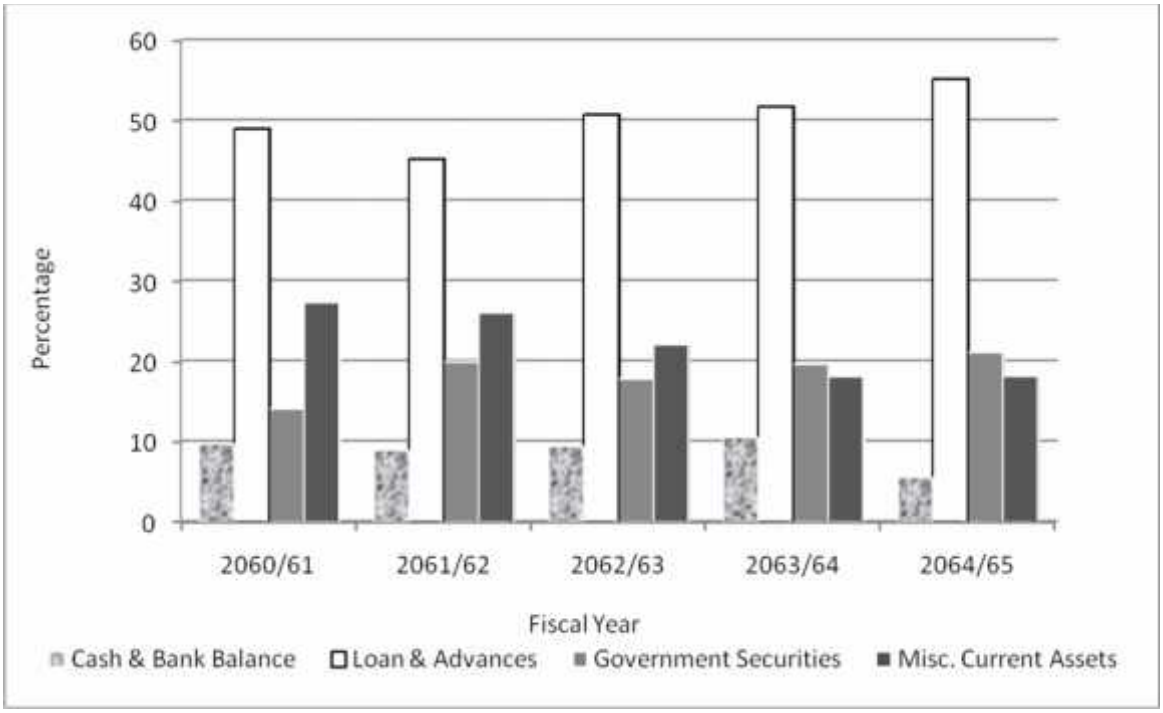
Percentage Components of Current Assets of HBL

Fiscal Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2060/61	9.70	48.93	14.05	27.32	100.00
2061/62	8.93	45.17	19.90	26.02	100.00
2062/63	9.43	50.70	17.81	22.06	100.00
2063/64	10.55	51.71	19.64	18.11	100.00
2064/65	5.56	55.14	21.13	18.17	100.00
Average	8.83	50.33	18.51	22.34	100.00
Std.dev.	1.72	3.28	2.47	3.84	
C.V	0.19	0.07	0.13	0.17	

Sources: Appendices 8, 9, 10, and 11

Figure 4.2

Bar Diagram of Percentage Composition of HBL Current Assets



To judge whether there is significant difference in composition of working capital between SCBNL and HBL, following hypothesis are formulated and tested. The following table exhibits the mean value of various percentages measuring the composition or structure of working capital of SCBNL and HBL and student t value.

Table 4.5

Mean t-value of Composition of Working Capital

S.N	Composition	SCBNL Mean	HBL Mean	Calculated t Value	Tabulated t Value	Result
1	Cash & Bank Balance	14.47	8.83	4.21	2.306	Significant
2	Loan and Advances	35.57	50.33	5.18	2.306	Significant
3	Govt. Securities	30.02	18.51	4.66	2.306	Significant
4	Misc. Current Assets	19.94	22.34	0.929	2.306	Not Significant

Sources:- Appendices 31, 32, 33 & 34

From the table above, it is clear that there is significant difference between cash and bank balance, loan and advances and Government Securities of SCBNL and HBL because the calculated value of t is more than its tabulated value. Therefore, the null

hypothesis is rejected and there is no significant difference between miscellaneous current assets of SCBNL and HBL because the calculated value of t is less than its tabulated value.

4.2.1 Cash and Bank Balance

Cash and bank balance percentage of SCBNL slightly fluctuated over the study period. It is highest (18.05%) in the first year and lowest (12.68%) in the third year of the study period. The average cash and bank balance percentage of SCBNL is 14.47%.

Likewise, cash and bank balance percentage of HBL also slightly fluctuated over the study period. It is highest (10.55%) in the forth year and lowest (5.56%) in the fifth year of the study period. The average cash and bank balance percentage of HBL is 8.83%. The study shows that average cash and bank balance percentage of SCBNL (14.47%) is higher than that of HBL (8.83%).

Similarly, standard deviation is 2.05% in SCBNL whereas it is 1.72% in HBL. Hence it shows SCBNL has higher risk factor than that of HBL. Likewise, coefficient of variation is 0.14 for SCBNL and 0.19 for HBL, indicating more variation in cash and bank balance maintained in HBL compared to SCBNL.

The cash and bank balance percentage trend equation of both bank SCBNL and HBL are Yc = 14.47 + (-1.259)x and Yc = 8.83 + (-0.666)x respectively. Where ‘x’ and ‘y’ are used to denote time variable and cash and bank balance percentage variable respectively.

From the calculation of cash and bank balance percentage trend as per appendix 5, the value of the constants a and b are as follows:

	SCBNL	**HBL**
a	14.47%	8.83%
b	-1.259	-0.666
Cash and bank percentage to current assets trend equation	Yc=14.47+(-1.259)x	Yc= 8.83+(-0.666)x

The value of ‘a’ represent the y intercept when x=0 and the value of ‘b’ represent the slope of the trend line. The above table shows that the value of ‘a’ of SCBNL is greater than that of HBL but the value of ‘b’ of SCBNL is smaller than that of HBL. Value of ‘b’ of both banks are negative which means the cash and bank balance percentage trend of both banks are in decreasing trend. Which is not satisfactory. But in comparison, higher negative value of ‘b’ of SCBNL i.e. (-1.259) shows that there is decreasing trend of cash and bank balance percentage of SCBNL than that of HBL. Here negative slope of SCBNL means the cash and bank balance trend of SCBNL is decreasing per year by Rs. 1.259 million where as in case of HBL it is decrease by 0.666 million. This shows the cash and bank balance percentage trend of SCBNL is better than that of HBL in comparison thought the cash and bank balance trend of both banks are decreasing. It is so because higher negative trend value of cash and bank balance percentage of SCBNL indicates the better utilization of cash on income generating.

Figure 4.3

Actual & Trend lines of Cash & Bank Balance Percentages

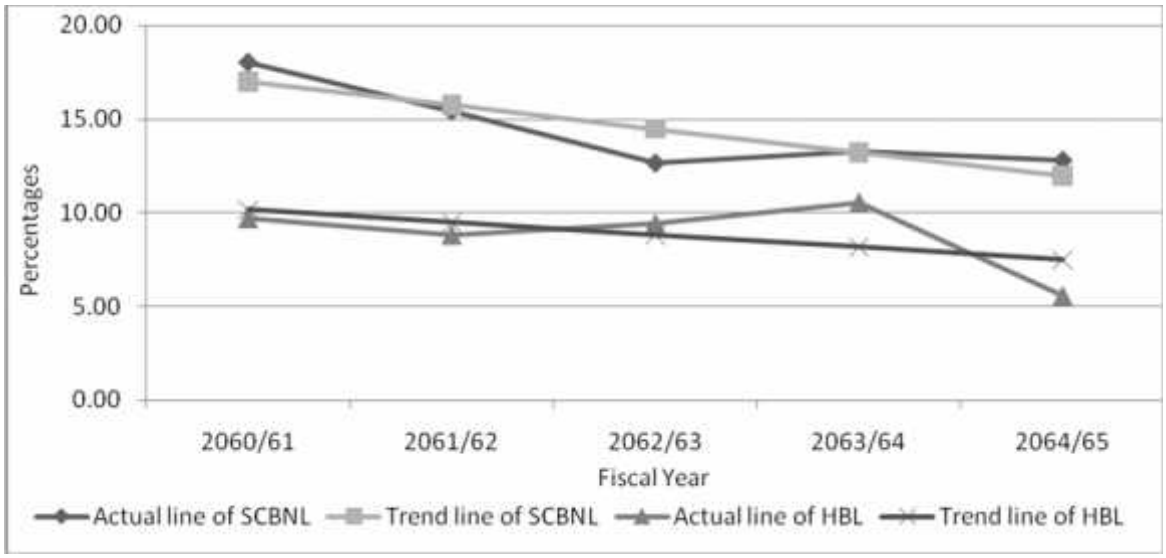


Figure 4.3 depicts that the trend line of SCBNL is always higher than HBL due to high cash and bank balance percentage. It helps to conclude that the average cash and bank balance percentage of SCBNL is higher than HBL and trend value of cash percentages indicates than SCBNL rapidly reduced its cash percentage on total current assets than HBL. The trend value also shows that SCBNL effectively utilized its cash balance to invest in income generating sector.

4.2.2 Loan and Advances

Loan and advances percentage of SCBNL are found slightly fluctuating in the study period. It is increasing in the second year and slightly decreasing over the third year and increasing in forth and fifth year of the study period. It is highest in year 2064/65 i.e., 41.44% and lowest in the first year 2060/61 i.e., 27.28%. The average loan and advances percentage of SCBNL is 35.57%.

In case of HBL, the loan and advance percentage of HBL are also slightly fluctuating in the study period. After first year, it is decreasing in the second and increasing in third, forth & fifth year. The highest percentage of loan and advance of HBL is in year 2064/65 i.e., 55.14% and lowest in year 2061/62 i.e., 45.17%. The average loan and advance percentage of HBL is 50.33%.

The standard deviation is 4.65% in SCBNL whereas it is 3.28% in HBL. Hence it shows SCBNL has higher risk factor than that of HBL. Likewise, coefficient of variation is 0.13 in SCBNL and 0.065 in HBL. Hence, more variation in loan and advance is maintained in HBL compared to SCBNL.

Loan and advances percentage trend equation of SCBNL and HBL are Yc=35.57+(5.586)x and Yc=50.33+(3.792)x respectively. The calculated loan and advances percentage trend as per appendix 6 with the value of the constants a and b are as follows:

	SCBNL	**HBL**
a	35.57	50.33
b	5.586	3.792
Loan and advances percentage	Yc=35.57+(5.586)x	Yc=50.33+(3.792)x

The above table shows the value of ‘a’ of HBL is greater than that of SCBNL but the value of ‘b’ of HBL is lower than that of SCBNL. Value of ‘b’ of both banks are positive which means the loan and advances trends of both banks are in increasing trend. It shows the better utilization of loan and advances for income generating.

Figure 4.4

Actual & Trend line of Loan & Advances Percentages

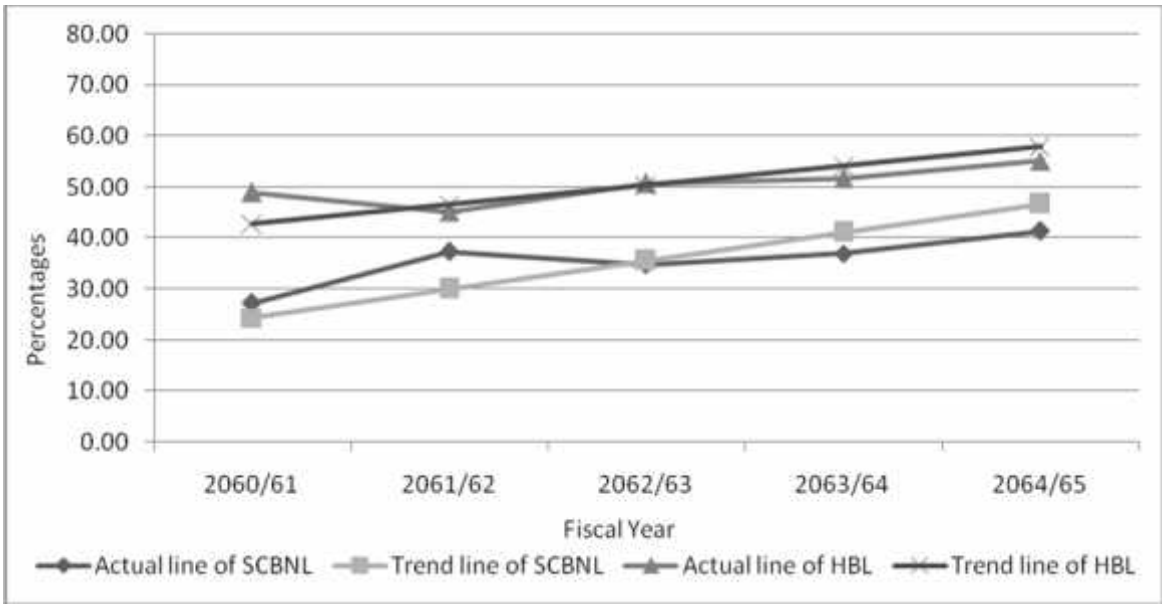


Figure 4.4 shows that the trend line and actual line of loan and advances of HBL are always higher than SCBNL.

The above analysis helps to conclude that the loan and advances percentage of HBL are better than SCBNL. This loan and advances percentage of total current assets indicates that the greater portion of current assets of HBL is employed for the income generating purpose.

4.2.3 Government Securities

The percentage of government securities are slightly decreasing in the study period of SCBNL.. It is highest (33.89%) in the year 2060/61 and lowest (24.58%) in the fifth year 2064/65. The average investment in government securities is 30.02%.

Similarly, the percentage of government securities of HBL is increasing in the second forth and fifth year and decreasing in the third year. It is highest (21.13%) in the fifth year 2064/65 and lowest (14.05%) in the first year 2060/61. The average government securities percentage of HBL is 18.51%. The average government securities percentage of SCBNL (30.02%) is higher than that of HBL (18.51%).

The standard deviation is 4.29% in SCBNL whereas it is 2.47% in HBL. Similarly, coefficient of variation is 0.14 in SCBNL and 0.13 in HBL. Hence, more variation in government securities is maintained in HBL compared to SCBNL.

From the calculation of government securities percentage trend as per appendix 7, the value of the constants a and b and Trend equation are as follows:

	SCBNL	**HBL**
a	30.02	18.51
b	-5.306	-2.78
Government securities trend	Yc=30.02+(-5.306)x	Yc=18.51+(-2.78)x

The above table shows that the value of 'a' of SCBNL is greater than that of HBL but the value of 'b' of HBL is greater than SCBNL though the value of 'b' of both banks is in negative trend. This means the government securities of SCBNL will decrease by Rs. 5.306 million per year whereas the government securities of HBL will decrease by Rs. 2.78 million per year.

Figure 4.5

Actual & Trend lines of Government Securities Percentages

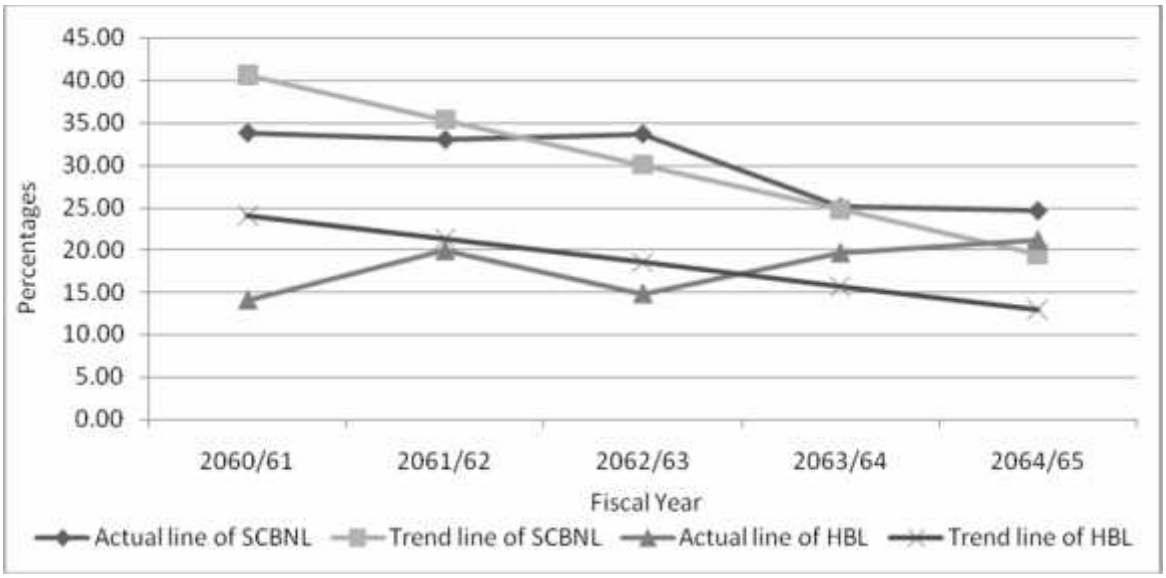


Figure 4.5 shows that the trend line and actual line of government securities percentage of SCBNL are always higher than that of HBL.

The above analysis helps to conclude that the government securities percentage on total current assets of SCBNL is better than HBL. It shows that SCBNL has prioritized to invest on government securities rather than loan and advances due to unavailability of secured investment sector.

4.2.4 Miscellaneous Current Assets

The percentage of miscellaneous current assets of SCBNL is slightly fluctuating during study period. It is highest (24.74%) in the forth year 2063/64 and lowest (14.17%) in the second year 2061/62. The average miscellaneous current assets percentage for SCBNL is 19.94%

The percentage of miscellaneous current assets of HBL is also slightly fluctuating in the period of study. It is slightly decreasing in the second year as well as third fourth and increasing in fifth year. It is highest (27.32%) in the first year 2060/61 and lowest (18.11%) in the forth year 2063/64. The average miscellaneous current assets percentage for HBL is 22.34%.

The standard deviation is 03.46% in SCBNL whereas it is 3.84% in HBL. Coefficient of variation is 0.17 in SCBNL and 0.17 in HBL also.

4.3 Net Working Capital

Net Working Capital is the difference between current assets and current liabilities. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. All the organization should have just adequate working capital to serve in competitive market. Excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment working capital affects a firm's profitability just as idle investment yields nothing. In the same way inadequate or negative working capital may be harmful to the organization. So, net working capital can be more useful for the analysis of trade-off between profitability and risk. It enables a firm to determine how much amount is left for operational requirement.

Table 4.6

Net Working Capital of SCBNL

(Rs. in Million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% Change in NWC
2060/61	23494.63	20657.82	2836.81	-
2061/62	21808.82	18834.13	2974.69	0.05
2062/63	25659.69	21825.38	3834.31	0.29
2063/64	28426.16	23223.6	5202.56	0.36
2064/65	33103.99	27480.4	5623.59	0.08
Average			4094.39	
Std. Dev.			1137.48	
CV			0.28	

Sources:- Appendices 1 and 12

Table 4.7

Net Working Capital of HBL

(Rs. in Million)

Fiscal Year	Current Assets	Current Liabilities	Net Working Capital	% Change in NWC
2060/61	24428.11	18320.71	6107.4	-
2061/62	27508.96	19835.51	7673.46	0.26
2062/63	28879.67	20984.01	7895.66	0.029
2063/64	32871.65	22811.51	10060.14	0.27
2064/65	33359.90	26378.67	6981.23	-0.31
Average			7743.58	
Std.Dev.			1315.50	
CV			0.17	

Sources:-Appendices 3 and 12

Table 4.6 shows that the net working capital of SCBNL is increasing after first year. It is lowest in the first year then tends towards positive during the study period. The average net working capital of SCBNL is Rs. 4094.39 million. Similarly, standard deviation is 1137.48 and coefficient of variation is 0.28 in the study period.

In case of HBL, table 4.7 shows that the net working capital is increasing till the fourth year and again decreasing in fifth year of the study period. The average net working capital of HBL is Rs. 7743.58 million. The standard deviation is 1315.50 and coefficient of variation is 0.17 in the study period. Both the banks have positive working capital of the study period which implies that there is sufficient amount required for operational requirement.

4.4 Financial Analysis

Financial analysis is a powerful financial tool to measure the financial performance of banks comparatively. As mentioned in research methodology, liquidity, turnover and profitability ratios are calculated. As a mathematical tool, the method of least square is used to analyze performance.

4.4.1 Liquidity Ratios

Liquidity of any business organization is directly related with the working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Bank is different organization which is engaged in mobilization of funds. Therefore, without sound liquidity position, bank is not able to operate its function.

To measure the bank's solvency position or ability to meet its short-term obligation, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major liquidity ratios have been calculated.

4.4.1.1 Current Ratio

This ratio indicates the current short term solvency position of bank. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a 'cushion' of protection for creditors and the highest the current ratio, greater the margin of safety, large the amount of current assets in relation to current liabilities, more the banks ability to meet its current obligations.

The current ratio can be calculated as shown below:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The following table shows the current ratio to compare the working capital management of SCBNL and HBL.

Table 4.8

Current Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2060/61	23494.63	20657.82	1.137	24428.11	18320.71	1.33
2061/62	21808.82	18834.13	1.158	27508.96	19835.51	1.39
2062/63	25659.69	21825.38	1.18	28879.67	20984.01	1.38
2063/64	28426.16	23223.60	1.22	32871.65	22811.51	1.44
2064/65	33103.99	27480.40	1.20	35359.91	26378.67	1.34
Average	1.179			1.376		
Std. dev.	0.029			0.039		
C.V	0.025			0.029		

Sources: Appendices 1,3 and 13

Table 4.8 depicts that the current assets and current liabilities of SCBNL decreases in the second year 2061/62 then they are increasing for all the times during the study period. Similarly in case of HBL, the current assets and current liabilities are increasing for all the times. The current ratio of HBL and SCBNL are quite fluctuating over the study period. The current ratio of SCBNL is highest in the forth year i.e., 1.22 and lowest in the forth year i.e., 1.137. In HBL, the current ratio is increasing in second year and forth year and slightly decreasing in third year and fifth year. The highest current ratio is 1.44 in forth year and lowest is 1.33 in first year.

The average current ratio of SCBNL is 1.179. In HBL, the average current ratio is 1.376. The yearly ratios of HBL are always higher than that of SCBNL. Therefore, the average ratio of HBL is higher than the average ratio of SCBNL. The standard deviation is 0.029 in SCBNL whereas it is 0.039 in HBL. Similarly, coefficients of variation are 0.025 in SCBNL and 0.029 in HBL. Hence, it shows there is more variation in current ratio maintained by HBL compared to SCBNL.

Figure 4.6

Current Ratio

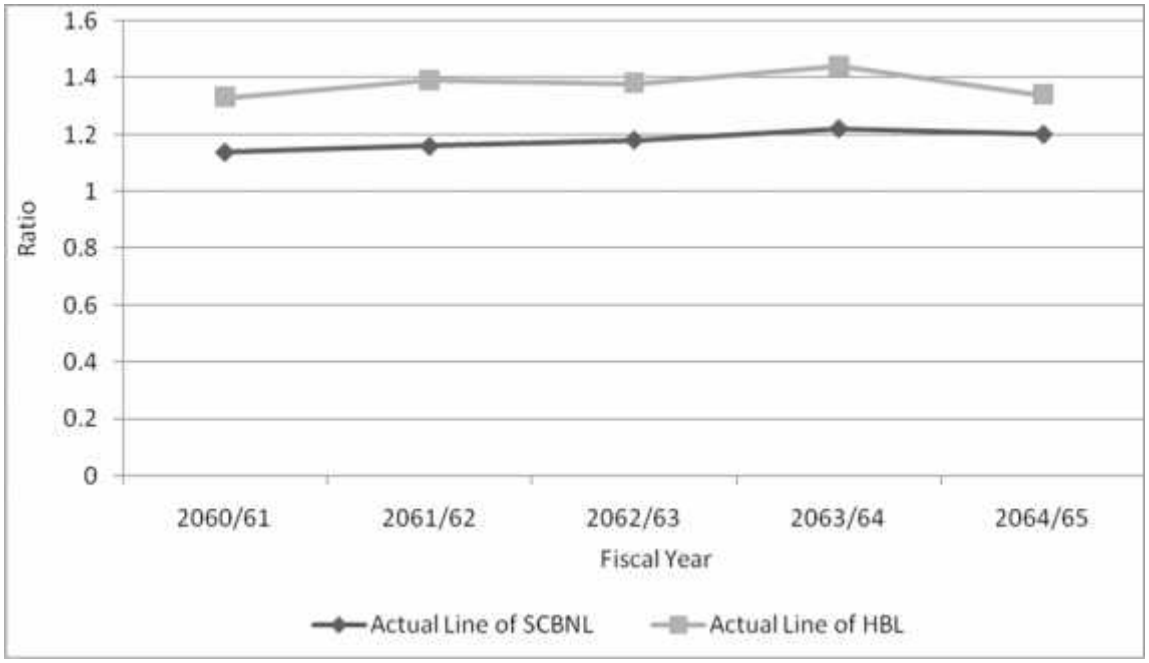


Figure 4.6 depict that the current ratio of SCBNL and HBL. It is clear from the above graph that current ratios of HBL are always higher than SCBNL.

The above analysis helps to conclude that both banks are unable to maintain the standard current ratio of 2:1. Therefore, they have poor liquidity position according to norms however; they have sufficient current assets to discharge the current liabilities. Comparatively, the liquidity position of HBL is better than that of SCBNL. In other words, HBL has more ability to meets its current obligations than SCBNL.

4.4.1.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities.

For Quick Ratio, cash and bank balance and government securities are included in quick assets. This ratio can be found out by dividing the total of quick assets by total current liabilities.

The formula is given below:

$$\text{Quick Ratio} = \frac{\text{Quick or Liquid Assets}}{\text{Current Liabilities}}$$

The following table shows the quick ratio of SCBNL and HBL:

Table 4.9

Quick Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Quick Assets	Current Liabilities	Ratio	Quick Assets	Current Liabilities	Ratio
2060/61	12189.98	20657.82	0.59	5801.82	18320.71	0.32
2061/62	10573.88	18834.13	0.56	7925.25	19835.51	0.39
2062/63	11898.37	21825.38	0.54	7866.95	20984.01	0.37
2063/64	10890.11	23223.6	0.47	9922.23	22811.51	0.43
2064/65	12385.39	27480.4	0.45	9438.33	26378.67	0.36
Average	0.522			0.374		
Std.dev.	0.092			0.036		
C.V	0.18			0.096		

Sources: Appendices 1, 3 and 14

Table 4.9 shows that the quick ratios of SCBNL are slightly fluctuating during the study period. The ratio is highest (0.59) in the first year 2060/61 and lowest (0.45) in the fifth year 2064/65. The average quick ratio of SCBNL is 0.522. The yearly quick ratios are lower than the average in the years 2063/64 and 2064/65. However, the ratio is higher than the average in the first, second and third year.

The quick ratios of HBL are also slightly fluctuating over the study period. It is highest (0.43) in the year 2063/64 and lowest (0.32) in the year 2060/61. The average quick ratio of HBL is 0.374. In the second and forth year quick ratios are higher than the average ratio. However, the ratios are lower than the average ratio in the first and fifth year and equal with third year. The average quick ratio of SCBNL is higher than that of HBL.

The standard deviation is 0.092 in SCBNL whereas it is 0.036 in HBL. Similarly, coefficient of variation of SCBNL is 0.18 and 0.096 in HBL. Thus, coefficient of variation of SCBNL is higher than that of HBL which shows that there is more variation in quick ratio of SCBNL compared to HBL.

Figure 4.7

Quick Ratio

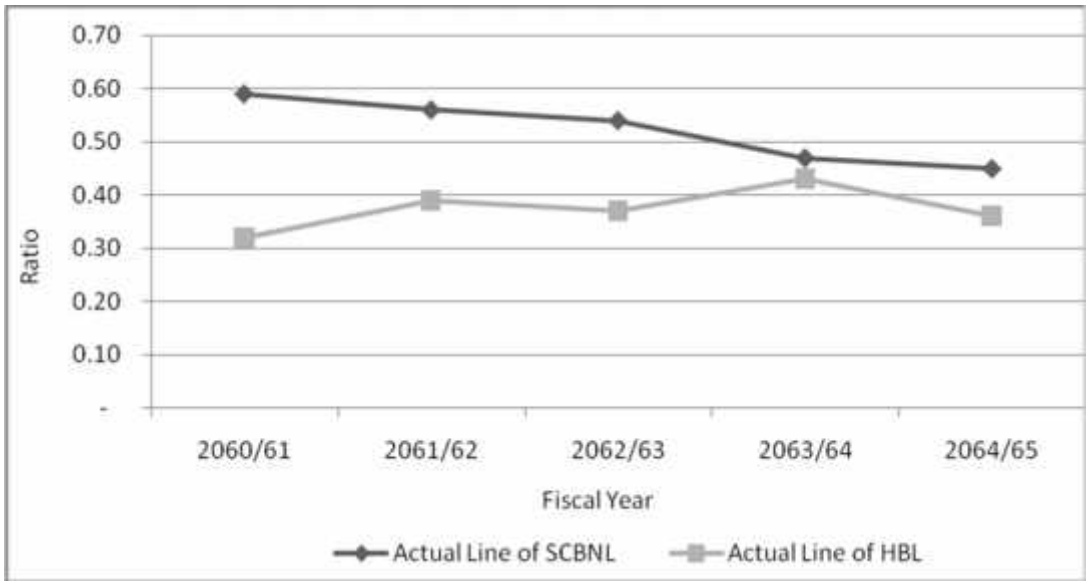


Figure 4.7 shows that the quick ratio of SCBNL and HBL. It is clear from the above graph that the quick ratios of SCBNL are always higher than HBL.

The above analysis helps to conclude that the quick ratios of SCBNL are always better than HBL. It shows the better liquidity position of SCBNL in comparison to HBL.

4.4.1.3 Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposit)

This ratio shows the ability of banks immediate funds to cover their (Current margin, call and saving) deposits. This ratio is calculated as below:

$$\text{Balance to Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit (Excluding Fixed Deposit)}}$$

The following table shows the cash and bank balance to deposit ratio (excluding fixed deposit) of SCBNL and HBL:

Table 4.10

Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposits)

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Cash and Bank Balance	Deposit	Ratio	Cash and Bank Balance	Deposit	Ratio
2060/61	4241.76	19732.95	0.215	2370.09	17300.16	0.137
2061/62	3370.81	17918.72	0.188	2455.55	18706.58	0.131
2062/63	3253.51	20924.72	0.155	2722.63	20140.65	0.135
2063/64	3782.17	21450.53	0.176	3467.36	21847.29	0.159
2064/65	4247.78	26442.99	0.161	1966.67	25418.92	0.077
Average	0.179			0.128		
Std. dev.	0.021			0.028		
C.V	0.12			0.22		

Sources: *Appendices 1, 3 and 15*

Table 4.10 demonstrates that the ratios of SCBNL are fluctuating over the study period. The ratios are decreasing in second and third year and increasing in forth year again decreasing in fifth year. It is highest (0.215) in the year 2060/61 and lowest (0.155) in the year 2062/63. The average ratio of SCBNL is 0.179. The ratio is higher than the average in the first and second year and rest of the three years of study period has lower than average value.

In case of HBL, the ratios are fluctuating as well. It is decreasing in the second year and increasing in third and forth year again rapidly decreasing in fifth year. It is highest (0.159) in the year 2063/64 and lowest (0.077) in the year 2064/65. The average ratio of HBL is 0.128. The ratios are higher than the average in the first four years and last year of the study period has lower than average value. The average ratio of SCBNL (0.179) is higher than that of HBL (0.128). The standard deviation is 0.021 in SCBNL whereas it is 0.028 in HBL. Similarly, coefficient of variation of SCBNL is 0.12 and 0.22 in HBL. The coefficient of variation of SCBNL is lower than that of HBL. This explains that SCBNL is more preferable than HBL in terms of cash and bank balance to deposit ratio (except fixed deposit). HBL has high risk or the variability of the ratio is lower in SCBNL than HBL.

From the above analysis, it can be concluded that from the average ratio shows that liquidity position of SCBNL is better than HBL because it has higher average ratio than that of HBL. According to C.V., the cash and bank balance position with respect to total deposit except fixed deposit, is better in the case of SCBNL than HBL.

4.4.1.4 Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long term and high interest charge bearing deposit. This ratio is calculated in order to find out the proportion of total deposit that has higher interest charge bearing. This ratio is calculated as follows:

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposits}}{\text{Total Deposits}}$$

Table 4.11

Fixed Deposit to Total Deposit Ratio (Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Fixed Deposit	**Total Deposits**	**Ratio**	**Fixed Deposit**	**Total Deposits**	**Ratio**
2060/61	1428.50	21161.45	0.0675	4710.18	22010.34	0.214
2061/62	1416.38	19335.10	0.0733	6107.43	24814.01	0.246
2062/63	2136.31	23061.03	0.0926	6350.20	26490.85	0.2397
2063/64	3196.49	24647.02	0.1297	8201.13	30048.42	0.2729
2064/65	3301.01	29744.00	0.1109	6423.87	31842.79	0.2017
Average	0.0949			0.2349		
Std. dev.	0.023			0.025		
C.V	0.24			0.11		

Sources: Appendices on 1, 3 and 16

Table 4.11 shows that the fixed deposit to total deposit ratios of SCBNL are increasing in second, third and forth year and decreasing in fifth year. It is highest (0.1297) in the year 2063/64and lowest (0.0675) in the year 2060/61. The average ratio of SCBNL is 0.0949. The yearly ratios of the forth and fifth year are higher than the average ratio. However, the rest of the three years are lower than that of the average ratio.

In HBL, the yearly ratios are slightly fluctuating. The ratio are increasing in the second year and decreasing in third year and increasing in forth again decreasing in

fifth year. It is highest (0.2729) in the year 2064/65 and lowest (0.2017) in the year 2064/65. The average ratio of HBL is 0.2349.

The standard deviation of SCBNL is 0.023 whereas it is 0.025 in HBL. The coefficient of variation of SCBNL is 0.24. Similarly, the coefficient of variation of HBL is 0.11. It shows that there is more variation in the composition in the fixed assets to total deposit ratio in HBL compared to SCBNL.

The above analysis helps to conclude that the fixed deposit to total deposit ratios of HBL are better than the SCBNL which indicates the better liquidity position in HBL than SCBNL. Fixed deposit, however, is higher cost long term source, which affected the profitability of bank adversely. The study shows SCBNL has high risk than HBL.

4.4.1.5 Saving Deposit to Total Deposit Ratio

Saving deposit is an interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit.

This ratio is calculated as below:

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposits}}{\text{Total Deposits}}$$

The following table summarizes the saving deposits to total deposit ratio of SCBNL and HBL:

Table 4.12
Saving Deposits to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Saving Deposit	Total Deposits	Ratio	Saving Deposit	Total Deposits	Ratio
2060/61	12771.83	21161.45	0.604	11759.60	22010.34	0.534
2061/62	13030.91	19335.10	0.674	12852.41	24814.01	0.518
2062/63	14597.67	23061.03	0.633	14582.86	26490.85	0.550
2063/64	15244.38	24647.02	0.619	15784.77	30048.42	0.525
2064/65	17856.13	29744.00	0.600	17972.44	31842.79	0.564
Average	0.626			0.5382		
Std.dev.	0.027			0.017		
C.V	0.043			0.032		

Sources: Appendices 1, 3 and 17

Table 4.12 shows that the saving deposits to total deposit ratios of SCBNL are fluctuating during the study period. It is highest (0.674) in the year 2061/62 and lowest (0.600) in the year 2064/65. The average ratio of SCBNL is 0.626. The yearly ratios of the first, forth and fifth year are lower than the average ratio. However, the yearly ratios are higher than the average ratio in the second and third year.

In case of HBL, the saving deposits to total deposit ratios are also slightly fluctuating in the study period. It is highest (0.564) in the year 2064/65 and lowest (0.518) in the year 2061/62. The average ratio of HBL is 0.5382. The yearly ratios are lower than the average ratio in the first, second and forth year of the study period. However, the yearly ratios are higher than the average ratio in the third and fifth year.

The average ratio of SCBNL (0.626) is higher than that of HBL (0.5382). The standard deviation of SCBNL is 0.027. Similarly, the standard deviation of HBL is 0.017. The coefficient of variation of SCBNL is 0.043. Likewise, the coefficient of variation of HBL is 0.032.

Savings deposit are short term liability, it is longer in term than current and other deposits. So the large portion of saving deposit in total deposits shows the liquidity of the bank. Bank also pays interest on saving deposit whereas current, margin and other deposits are nominal cost funds. From the above table 4.11, savings deposit to total deposits ratio of SCBNL is better than HBL.

To judge whether there is significant difference in liquidity position between SCBNL and HBL, following null hypothesis and alternative hypothesis are formulated and tested.

The following table exhibits the mean value of various percentages measuring the liquidity position of SCBNL and HBL and student t value.

Table 4.13

t-value of Liquidity Position

S.N.	Composition	SCBNL Mean	HBL Mean	Calculated t Value	Tabulated t Value	Result
1	Current Ratio	1.179	1.376	8.03	2.306	Significant
2	Quick Ratio	0.522	0.374	4.59	2.306	Significant
3	Cash & bank balance to Deposit Ratio (Ext. fixed deposit)	0.179	0.128	2.93	2.306	Significant
4	Fixed deposit to total deposit ratio	0.0949	0.2349	8.21	2.306	Significant
5	Saving deposit to total deposit ratio	0.626	0.5382	5.57	2.306	Significant

Sources:-Appendices 35, 36, 37, 38 and 39

From the above table, it is clear that the current ratio, Quick ratio, cash and bank balance to deposit ratio, fixed deposit to total deposit ratio and saving deposit to total deposit ratio of SCBNL and HBL is significant difference because their tabulated t value is less than the calculated value.

4.4.2 Activity or Turnover Ratio

4.4.2.1 Loan and Advances to Total Deposit Ratio

The ratio assesses to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans and advances. So it shows the effectiveness in utilization of total deposits of SCBNL and HBL. This ratio is calculated as below:

$$\text{Loans \& Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

The following table shows the effectiveness in utilization of total deposits of SCBNL and HBL:

Table 4.14

Loan and Advances to Total Deposits Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Loan & Advances	Total Deposits	Ratio	Loan & Advances	Total Deposits	Ratio
2060/61	6410.24	21161.45	0.3029	11951.87	22010.34	0.5430
2061/62	8143.21	19335.10	0.4212	12424.52	24814.01	0.5007
2062/63	8935.42	23061.03	0.3875	14642.56	26490.85	0.5527
2063/64	10502.64	24647.02	0.4261	16997.99	30048.42	0.5657
2064/65	13718.60	29744.00	0.4612	19497.52	31842.79	0.6123
Average	0.3998			0.5549		
Std.dev.	0.054			0.036		
C.V	0.14			0.06		

Sources: *Appendices on 1, 3 and 18*

Table 4.14 demonstrates that the loan and advances to total deposit ratios of SCBNL are fluctuating during the study period. It is highest (0.4612) in the year 2064/65 and lowest (0.3029) in the year 2060/61. The average ratio of SCBNL is 0.3998. The yearly ratios of the second, forth and fifth year are higher than the average ratio. However, the yearly ratios of the first and third year are lower than the average ratio.
In case of HBL, the loan and advances to total deposit ratios are also fluctuating during the study period. It is highest (0.6123) in the year 2064/65 and lowest (0.5007) in the year 2061/62 and 2059/60. The average ratio of HBL is 0.5549.

The average ratio of HBL (0.5549) is higher than that of SCBNL (0.3998). The standard deviation of SCBNL is 0.054 whereas it is 0.036 in HBL. The coefficient of variation of SCBNL is 0.14 and it is 0.06 in HBL. Thus C.V. of HBL is lower than SCBNL. This shows that there is less variation in loan and advance to total deposit ratio maintained by HBL compared to SCBNL. In other words, HBL has low risk.

The above analysis helps to conclude that loan and advances to total deposit ratio or total deposit turnover ratio of HBL is better than SCBNL. It is the indication of better performance of HBL. Thus HBL is utilizing the funds more efficiently for the profit generating purpose on loan and advances than SCBNL.

Relationship between loan and Advances and Total Deposit

The coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets, that is, loan and advances, and major sources of fund on bank, that is, total deposits. In correlation analysis, deposit is independent variable Y and loan and advances is dependent variable X. The purpose of computing coefficient of correlation is to justify whether or not the deposits are significantly used in loan and advances and whether there is any relationship between these two variables. To find out the correlation r various calculations are done.

Table 4.15 shows the coefficient of correlation, r, between loan and advances, and total deposits, and test statistic value t of SCBNL and HBL during the study period.

Table 4.15

Correlation Coefficients and Calculated and Tabulated t Values

Bank	R	Calculated t	Tabulated t	Result
SCBNL	0.924	4.19	3.182	Significant
HBL	0.973	7.30	3.182	Significant

Sources: Appendix 27

The table above indicates that the coefficient correlation between loan and advances and total deposits of SCBNL is 0.924 which indicates highly positive relationship between these two variables. By considering the test statistic, since the calculated value of t is more than its tabulated value. It can infer that the value of r is significant. In other words, there is a significant correlation between total deposits and loan and advances.

In case of HBL, we observe coefficient of correlation between total deposits and loan and advances is 0.973 which shows the highly positive relationship between the two variables. By considering the test statistics, since the calculated value of t is more than its tabulated value of 3.182, it can be concluded that the correlation between total deposit and loan and advance is highly significant in this case as well.

From the above analysis, it can be concluded that there is a highly significant relationship between loan and advance and total deposits in HBL and SCBNL. Both banks have utilized its total deposits on loan and advances effectively. Comparatively, HBL shows better relationship as well as utilization of deposits on loan and advances than SCBNL.

4.4.2.2 Loan and Advances to Fixed Deposit Ratio

The ratio measures how much amount is used in loans and advances in comparison to fixed deposits. This ratio is calculated as below:

$$\text{Loans and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

The following table shows the ratio of loan and advances to fixed deposits of SCBNL and HBL:

Table 4.16

Loan and Advances to Fixed Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Loan & Advances	Fixed Deposits	Ratio	Loan & Advances	Fixed Deposits	Ratio
2060/61	6410.24	1428.50	4.487	11951.87	4710.18	2.5375
2061/62	8143.21	1416.38	5.749	12424.52	6107.43	2.0343
2062/63	8935.42	2136.31	4.1826	14642.56	6350.20	2.3058
2063/64	10502.64	3196.49	3.2858	16997.99	8201.13	2.0726
2064/65	13718.60	3301.01	4.1559	19497.52	6423.87	3.0352
Average	4.372			2.397		
Std.dev.	0.796			0.366		
C.V	0.18			0.15		

Sources: *Appendices on 1, 3 and 19*

Table 4.16 shows that the loan and advance to fixed deposit ratios of SCBNL are slightly fluctuating during the study period. It is increasing in the second year and decreasing third and forth year again increasing in fifth of year. It is highest (5.749) in the year 2061/62 and lowest (3.2858) in the year 2063/64. The average ratio of SCBNL is 4.372. The yearly ratios of SCBNL are lower than the average ratio in the

third, fourth and fifth year. However, the yearly ratios are higher than the average ratio in the first and second year.

In case of HBL, the yearly ratios are also slightly fluctuating all during the study period. It is highest (3.0352) in the year 2064/65 and lowest (2.0343) in the year 2061/62. The average ratio of HBL is 2.397. The yearly ratios of HBL are lower than the average in the second, third and forth year. However, the yearly ratios of HBL are higher than the average ratio in the first and the fifth year.

The average ratio of SCBNL (4.372) is higher than that of HBL (2.397). The standard deviation of SCBNL is 0.796 whereas it is 0.366 in HBL. The coefficient of variation of SCBNL is 0.18 and it is 0.15 in HBL.

The above analysis helps to conclude that loan and advances to fixed deposit ratio of SCBNL is better than HBL. Because of lower amount of fixed deposit, the ratio became higher on SCBNL than HBL. The ratio implies that SCBNL is utilizing its fixed deposits in loan and advances more efficiently. Higher C.V. in SCBNL, compared to HBL, shows that the variability is more in loan and advance to fixed deposit ratio of SCBNL.

4.4.2.3 Loan and Advances to Saving Deposits Ratio

This ratio is also employed for the purpose of measuring utilization of savings deposits in generating revenue by giving loan and advances to the client. This ratio is calculated as below:

$$\text{Loans and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposits}}$$

The following table shows the ratio of loan and advances to saving deposits of SCBNL and HBL:

Table 4.17

Loan and Advances to Saving Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Loan & Advances	Saving Deposits	Ratio	Loan & Advances	Saving Deposits	Ratio
2060/61	6410.24	12771.83	0.50	11951.87	11759.60	1.02
2061/62	8143.21	13030.91	0.62	12424.52	12852.41	0.97
2062/63	8935.42	14597.67	0.61	14642.56	14582.86	1.01
2063/64	10502.64	15244.38	0.69	16997.99	15784.77	1.08
2064/65	13718.60	17856.13	0.77	19497.52	17972.44	1.08
Average			0.638			1.032
Std.dev.			0.09			0.042
C.V			0.14			0.04

Sources: Appendices on 1, 3 and 20

Table 4.17 shows that the loan and advances to saving deposit ratios of SCBNL are fluctuating over the study period. It is increasing in all the times during the study period except third year. It is highest (0.77) in the year 2064/65 and lowest (0.50) in the year 2060/61. The average ratio of SCBNL is 0.638. The yearly ratios of SCBNL are higher than the average ration in the forth and fifth year of the study period. However, the yearly ratios of SCBNL are lower than the average ratio in the first second and third year.

In case of HBL, the loan and advances to saving deposit ratios of HBL are also fluctuating during the study period. It is decreasing in the second year and increasing in the rest year. It is highest (1.08) in the year 2063/64 and 2064/65 and lowest (0.97) in the year 2061/62. The average ratio of HBL is 1.032. The yearly ratios of HBL are higher than the average ratio in the forth and fifth year. However, the yearly ratios of HBL are lower than the average ratio in the first, second and third year.

The average ratio of HBL (1.032) is higher than that of SCBNL (0.638). The standard deviation of SCBNL is 0.090 whereas it is 0.042 in HBL. Similarly, the coefficient of variation of SCBNL is 0.14 and it is 0.04 in HBL.

From the above analysis, it can be concluded that the loan and advances to saving deposits ratio of HBL is better than that of SCBNL. It implies that HBL is utilizing short term fund of outsiders more effectively than SCBNL but the risk is more in SCBNL than HBL.

4.4.3 Profitability Ratios

Profitability ratio is the measurement of efficiency. It provides the degree of success in achieving desired profit. Here, profitability is measured in terms of various ratios as follows:

4.4.3.1 Interest Earned to Total Assets Ratio

This ratio is used to determine total interest earned from investments over the total assets of a firm. This ratio can be calculated as below:

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

The following table shows the interest earned to total assets ratio of SCBNL and HBL:

Table 4.18

Interest Earned to Total Assets Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Interest Earned	Total Assets	Ratio %	Interest Earned	Total Assets	Ratio %
2060/61	1042.18	23642.06	0.044	1245.89	24762.02	0.050
2061/62	1058.68	21893.58	0.048	1446.47	27844.69	0.052
2062/63	1189.60	25776.33	0.046	1626.47	29460.39	0.055
2063/64	1411.98	28596.69	0.049	1775.58	33519.13	0.053
2064/65	1591.20	33335.79	0.048	1963.65	36175.53	0.054
Average	0.047			0.0528		
Std.dev.	0.0018			0.0017		
C.V	0.038			0.032		

Sources: Appendices on 1, 3 and 21

Table 4.18 shows that interest earned to total assets ratios of SCBNL are slightly fluctuating during the study period. It is constant for year 2061/62 and 2064/65. It is

decreasing in the third year and again increasing in forth year. It is highest (0.049) in the year 2063/64 and lowest (0.044) in the year 2060/61. The average ratio of SCBNL is 0.047. The yearly ratios of SCBNL are higher than the average ratio in the second, forth and fifth year. However, the yearly ratios are lower than the average ratio in the first and third year of the study period.

In case of HBL, the interest earned to total assets ratios of HBL are also slightly fluctuating during the study period. It is highest (0.055) in the year 2062/63 and lowest (0.050) in the year 2060/61. The average ratio of HBL is 0.0528.

The average ratio of HBL (0.0528) is higher than that of SCBNL (0.047). The standard deviation of SCBNL is 0.0018 whereas it is 0.0017 in HBL. The coefficient of variation of SCBNL is 0.038 and it is 0.032 in HBL. Thus, C.V. of SCBNL is higher than HBL. This shows that there is less variation in interest earned to total assets ratio maintained by HBL compared to SCBNL. In other words, HBL has lower risk in it.

Interest earned to total assets trend equation of SCBNL and HBL are Yc=0.047+(0.0009)x and Yc=0.0528+(0.0009)x respectively. The calculated values of ‘a’ and ‘b’ and trend equations as per appendix 25 are as follows:

	SCBNL	**HBL**
a	0.047	0.0528
b	0.0009	0.0009
Interest earned trend equation	Yc=0.047+(0.0009)x	Yc=0.0528+(0.0009)x

Here ‘a’ represents the Y intercept of trend line during the study period and ‘b’ represents the slope of the trend line. The above table shows the value of ‘a’ and ‘b’ of HBL is greater than that of SCBNL though both banks have positive ‘b’ value. The slopes of trend line of both banks are positive which means interest earned to total assets of both banks are increasing by Rs. 0.0009 per year. This shows the interest earned to total assets both banks are increasing.

Figure 4.8

Actual & Trend Line of Interest Earned to Total Assets Ratio

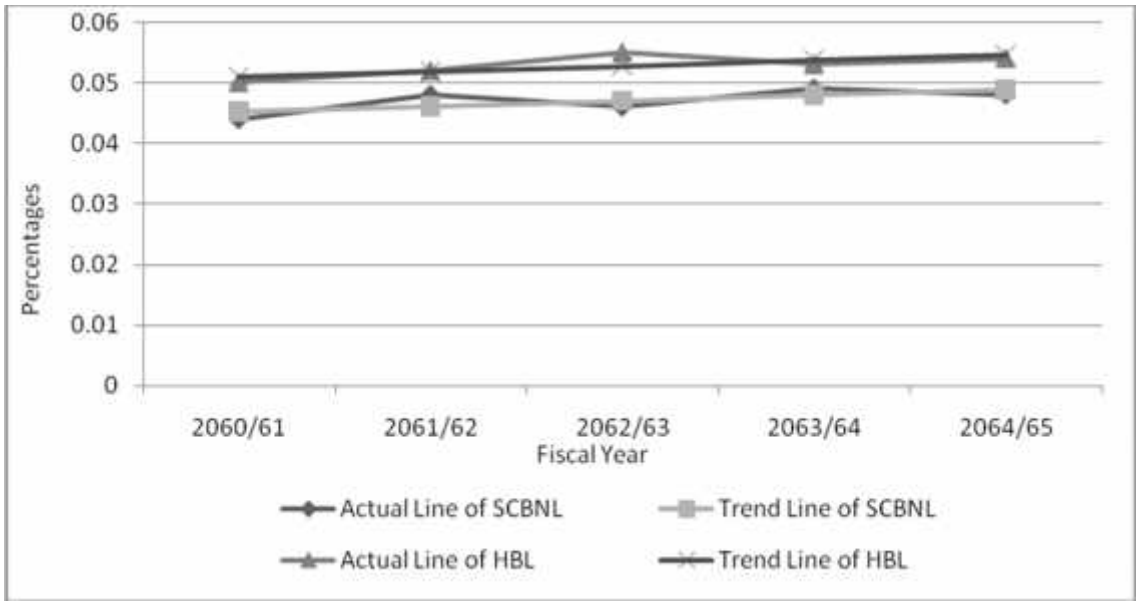


Figure 4.8 depicts that the trend and actual lines of HBL are higher than SCBNL from the beginning year of the study period. So the above analysis helps to conclude that the interest earned to total assets ratio of HBL is better than SCBNL. This implies that HBL is efficiently using its total assets (funds) to earn interest income.

4.4.3.2 Net Profit to Total Assets Ratio

This ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio can be calculated as follows:

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

The following table shows the net profit to total assets ratio of SCBNL and HBL:

Table 4.19

Net Profit to Total Assets Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Net Profit	Total Assets	Ratio %	Net Profit	Total Assets	Ratio %
2060/61	537.80	23642.06	0.023	263.053	24762.02	0.011
2061/62	539.20	21893.58	0.025	308.28	27844.69	0.011
2062/63	658.76	25776.33	0.026	457.46	29460.39	0.016
2063/64	691.67	28596.69	0.024	491.82	33519.13	0.015
2064/65	818.92	33335.79	0.025	635.87	36175.53	0.018
Average	0.0246			0.0142		
Std.dev.	0.0010			0.0023		
C.V	0.041			0.16		

Sources: Appendices on 1, 3 and 22

Table 4.19 shows that net profit to total assets ratios of SCBNL are not much fluctuating during the study period. It is highest (0.026) in the year 2062/63 and lowest (0.023) in the first year during the study period. The average ratio of SCBNL is 0.0246. In HBL, the net profits to total assets ratios of HBL are fluctuating during the study period. It is highest 0.018 in the year 2064/65 and lowest in the year 2060/61 and 2061/62.The average ratio of HBL is 0.0142. The standard deviation of SCBNL is 0.0010 and coefficient variation is 0.041. In HBL standard deviation is 0.0023 and coefficient variation is 0.16. The yearly ratios of SCBNL are always higher than HBL. Therefore, the average ratio of SCBNL is higher than HBL.

As per appendix 26, the values of constants ‘a’ ‘b’ and trend equations are as follows:

	SCBNL	HBL
A	0.0246	0.0142
B	0.0003	0.0018
Net profit to total assets trend equation	Yc=0.0246+(0.0003)x	Yc=0.0142+(0.0018)x

The above table shows that the value of ‘a’ of SCBNL is greater than that of HBL. But the value of ‘b’ of SCBNL is smaller than that of HBL. Value of ‘b’ of both banks are positive which shows the net profit to total assets will increase by Rs.

0.0003 million and Rs. 0.0018 million respectively. Thus from the above analysis it indicates that position of net profit to total assets of HBL is better than SCBNL.

Figure 4.9

Actual & Trend lines of Net Profit to Total Assets Ratio

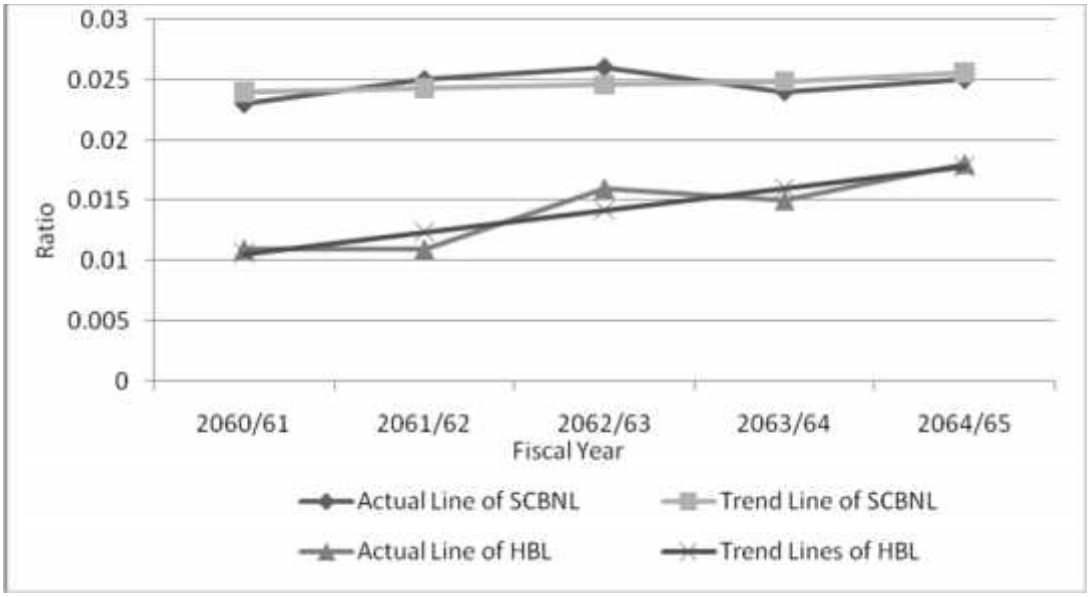


Figure 4.9 depicts that actual and trend lines of SCBNL are always higher than HBL during the study period.

The above analysis helps to conclude that the overall profitability of SCBNL has been better than HBL. SCBNL is efficiently using its working fund of assets to earn higher rate of profit.

4.4.3.3 Net Profit to Total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposits. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized. This ratio can be calculated as follows:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits}}$$

The following table shows the net profit to total deposits ratio of SCBNL and HBL:

Table 4.20

Net Profit to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Net Profit	Total Deposits	Ratio %	Net Profit	Total Deposits	Ratio %
2060/61	537.80	21161.45	0.025	263.053	22010.34	0.012
2061/62	539.20	19335.10	0.028	308.28	24814.01	0.012
2062/63	658.76	23061.03	0.029	457.46	26490.85	0.017
2063/64	691.67	24647.02	0.028	491.82	30048.42	0.016
2064/65	818.92	29744.00	0.028	635.87	31842.79	0.020
Average	0.0276			0.0154		
Std.dev.	0.0014			0.0031		
C.V	0.05			0.20		

Sources: Appendices on 1, 3 and 23

Table 4.20 shows that the ratios of SCBNL are constant in the year 2061/62, 2063/64 and 2063/64 during the study period. It is highest 0.02 in the year 2062/63 and lowest 0.025 in the year 2060/61. The average ratio of SCBNL is 0.0276%.

In HBL, the ratios are fluctuating during the study period. The highest ratio of HBL is 0.020% in the year 2064/65 and lowest 0.012 in the year 2060/61 and 2061/62. The average ratio of HBL is 0.0154. The Average ratio of SCBNL higher than that of HBL. The coefficients of variation are 0.0014 in SCBNL and 0.031 in HBL. Thus, C.V. of HBL is higher than that of SCBNL. This shows that there is more variation in net profit to total deposit ratio maintained by HBL compared to SCBNL. In other words, HBL has high risk in it.

The above analysis helps to conclude that the net profit to total deposit ratio of SCBNL is better than HBL. Mobilization of external funds is important to earn profit for a commercial bank. Thus SCBNL has better performance on mobilization of total deposits during that period.

4.4.3.4 Cost of Services to Total Assets Ratio

Cost of services to total assets ratio is useful in measuring the utilization of assets with cost of services. This ratio can be calculated as follows:

$$\text{Cost of Services to Total Deposit Ratio} = \frac{\text{Cost of Services}}{\text{Total Assets}}$$

The following table shows the cost of services to total assets ratio of SCBNL and HBL:

Table 4.21

Cost of Services to Total Assets Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Cost of Services	Total Assets	Ratio %	Cost of Services	Total Assets	Ratio %
2060/61	406.93	23642.06	0.017	644.05	24762.02	0.026
2061/62	402.67	21893.58	0.018	740.55	27844.69	0.027
2062/63	471.43	25776.33	0.018	883.43	29460.39	0.030
2063/64	612.84	28596.69	0.021	1039.64	33519.13	0.031
2064/65	696.99	33335.79	0.021	1131.27	36175.53	0.031
Average	0.019			0.029		
Std.dev.	0.0017			0.0021		
C.V	0.09			0.07		

Sources: *Appendices on 1, 3 and 24*

Table 4.21 shows that ratios of SCBNL are slightly fluctuating during the study period. It is constant in the second and third year again forth and fifth year .The average ratio of SCBNL is 0.019%. In HBL, ratios are slightly fluctuating during the study period. It is increasing in a second, third and forth year and remains constant in fifth year. The average ratio of HBL is 0.029%. The standard deviations are 0.0017 in SCBNL and 0.0021 in HBL. The coefficients of variation are 0.09in SCBNL and 0.07 in HBL. Thus C.V. of SCBNL is higher than HBL. This shows that there is more variation in cost of services to total assets ratio maintained by SCBNL compared to HBL.

From the above analysis, we conclude that cost of services on HBL is higher than that of SCBNL during the study period. Due to higher service cost, profitability of HBL is not satisfactory. In other words, SCBNL is performing better in terms of cost of services to total deposit ratio.

To judge whether there is significant difference in profitability position between SCBNL and HBL, following null hypothesis and alternative hypothesis are formulated and tested.

The following table shows the mean value of various percentages measuring the profitability position of SCBNL and HBL and student t value.

Table 4.22

t-value of Profitability Position

S.N.	Composition	SCBNL Mean	HBL Mean	Calculated t Value	Tabulated t Value	Result
1	Interest Earned to Total Assets	0.047	0.0528	4.67	2.306	Significant
2	Net profit to Total Assets	0.0246	0.0142	8.35	2.306	Significant
3	Net profit to Total Deposits	0.0276	0.0154	7.27	2.306	Significant
4	Cost of Services to Total Assets	0.019	0.029	7.46	2.306	Significant

Sources: Appendices 40, 41, 42 and 43

From the above table, it is learnt that there is significant difference in interest earned to total assets, net profit to total assets, net profit to total deposits and cost of services to total assets of SCBNL and HBL and null hypothesis is rejected.

4.5 Analysis of Coefficient of Correlation

4.5.1 Relationship between Investment on Government Securities and Total Deposit

The coefficient of correlation between investment on government security and total deposits is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan and advances, some part of idle deposits are invested on government securities. In correlation analysis, deposit is independent variable Y and a government security is dependent variable X. The purpose of computing coefficient of correlation in this case is to justify whether or not the excess deposits

are significantly used in government securities and whether there is any relationship between these two variables.

Table 4.23 shows the coefficient of correlation between government securities and total deposits during the study period.

Table 4.23

Correlation Coefficients and Calculated and Tabulated t Values

Bank	R	Calculated t	Tabulated t	Result
SCBNL	0.30	0.555	3.182	Not Significant
HBL	0.96	5.94	3.182	Significant

Sources: Appendix 28

The table above points out that the coefficient correlation between government securities and total deposits of SCBNL is 0.30 implying less positive relationship between these two variables. By considering the test statistics, since the calculated value of t is less than its tabulated value of 3.182, it can be inferred that the value of r is not significant.

In case of HBL, it is observed that coefficient of correlation between total deposits and government securities is 0.96 which indicating the highly positive relationship between the two variables. By considering the test statistics, since the calculated value of t is more than its tabulated value of 3.182, it can be inferred that the value of r is significant.

From the above analysis, it is clear that there is not significant relationship between investment on government securities and total deposits in SCBNL.There is a highly significant relationship between investment on government security and total deposits in HBL.

4.5.2 Relationship between Cash and Bank Balance and Current Liabilities

Cash and bank balance are most liquid components of current assets. They are required to meet the unexpected short term obligation or current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree or relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are performed.

Table 4.24 shows the coefficient of correlation between cash and bank balance and current liabilities, and calculated and tabulated values of t of SCBNL and HBL during the study period.

Table 4.24

Correlation Coefficients and Calculated and Tabulated t Values

Bank	R	Calculated t	Tabulated t	Result
SCBNL	054	1.11	3.182	Not Significant
HBL	-0.15	0.26	3.182	Not Significant

Sources: Appendix 29

From the above table, it can be inferred that the coefficient of correlation between cash and bank balance and current liabilities in SCBNL is 0.54 which shows positive relationship between these two variables. By considering the test statistics, since the calculated value of t is less than its tabulated value of 3.182, we can say that the value of r is not significant. In other words, there is no significant relationship between cash and bank balance and current liabilities.

In case of HBL, it can be seen that coefficient of correlation between cash and bank balance and current liabilities is low. The value of r in this case is -0.15 which shows negative relationship between two variables. By considering the test statistics, since the calculated value of t is less than its tabulated value of 3.182, we can further conclude that the relationship between cash and bank balance and current liabilities is not significant.

From the above analysis, it can be concluded that there is no significant relationship between cash and bank balance and current liabilities in both banks.

4.5.3 Relationship between Loan and Advances and Net Profit

The basic function of a commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit measures the degree of relationship between loan and advances, and net profit. In correlation analysis, loan and advances is independent variable Y and net

profit is dependent variable X. The purpose of computing coefficient of correlation is to justify whether or not the loan and advances significantly generate profit and whether there is any relationship between these two variables.

Table 4.25 shows the coefficient of correlation between loan and advances and net profit, and calculated and tabulated t value of SCBNL and HBL during the study period.

Table 4.25

Correlation Coefficients and Calculated and Tabulated t Values

Bank	R	Calculated t	Tabulated t	Result
SCBNL	0.923	4.15	3.182	Significant
HBL	0.98	8.53	3.182	Significant

Sources: Appendix 30

From the table above, it is found that the coefficient correlation between loan and advances and net profit of SCBNL is 0.923 which shows highly positive relationship between these two variables. By considering the test statistics, since the calculated value of t is more than its tabulated value of 3.182, we can say that the value of r is significant. In other words, there is significant relationship between loan and advances and net profit.

In case of HBL, it is observed that coefficient of correlation between loan and advances and net profit of HBL is 0.98 which shows highly positive relationship between these two variables. By considering the test statistics, since the calculated value of t is more than its tabulated value of 3.182, we can say that the value of r is significant. In other words, there is significant relationship between loan and advances and net profit.

From the above analysis, it can be concluded that both the banks have significant relationship between loan and advances and net profit.

4.6 Major Findings

The major findings of this study derived from the analysis of data are summarized below:

- The major components of current assets in SCBNL and HBL are cash and bank balance, loan and advance and government securities. In the study period, the proportion of cash and bank balance, loan and advances and government securities to total current assets on an average are 14.47%, 35.57% and 30.02% in SCBNL and 8.83%, 50.33% and 18.51% in HBL, respectively. So it is found that the average cash and bank balance and government securities are higher on SCBNL than on HBL and average loan and advances percentage is higher in HBL than in SCBNL. The trend value of cash and bank balance is negative in both banks so as the trend value of loan and advance is positive in SCBNL as well as in HBL. The trend value of government securities is negative in both SCBNL and HBL.

- The net working capital of both SCBNL and HBL are positive in the study period which shows sufficient amount of working capital for operational requirement in the banks. The average net working capital of SCBNL is Rs. 4094.39 million and that of HBL is Rs. 7743.58 million. The net working capital of SCBNL ranges from Rs. 2836.81 million to Rs. 5623.59 million whereas in HBL, it ranges from Rs. 61.07.4 million to Rs. 10060.14 million. The CV of SCBNL is 0.28 and that of HBL is 0.17 which shows that there is very high variability of net working capital maintained by SCBNL compared to HBL.

- The liquidity positions of banks are analyzed with the current ratio, quick ratio and cash balance to deposit ratio. The current ratios of SCBNL and HBL ranges from 1.137 to 1.22 and 1.33 to 1.44 respectively. Measuring the risk factor, it shows that there is more variation in current ratio maintained by HBL compared to SCBNL. The average current ratio of SCBNL and HBL are 1.179 and 1.376 respectively. This shows that the liquidity position or short term solvency of HBL is better than SCBNL in the study period. The liquidity ratio, or current ratio, quick ratio and cash and bank balance to deposit ratio of SCBNL and HBL

are fluctuating. Higher liquidity means lower risk as well as lower profit in general; it does not necessarily mean lower profit in case of commercial banks.

- Fixed deposit to total deposit ratios of HBL are higher than that of SCBNL during the study period. The ratios of SCBNL range from 0.0675 to 0.1297 with an average of 0.0949. The ratios of HBL range from 0.214 to 0.2729 with an average of 0.2349. Therefore, it is concluded that HBL has more long-term and costly sources of funds than SCBNL and the risk is higher in SCBNL than in HBL.

- Savings deposit to total deposit ratios of SCBNL are higher than that of HBL for the study period. The ratios of SCBNL range from 0.600 to 0.674 with an average of 0.626. The ratios of HBL range from 0.518 to 0.564 with an average of 0.5382. Therefore, it is concluded that SCBNL has more short term and less costly sources of funds than HBL. The risk of SCBNL is higher compared to HBL.

- The turnover positions of SCBNL have fluctuating trend. The average value of loan and advances to total deposit ratio, loan and advances to fixed deposit ratio and loan and advances to saving deposit ratio are 0.3998, 4.372 and 0.638 on SCBNL and 0.5549, 2.397 and 1.032 on HBL, respectively. From the analysis of turnover of these two banks, it is found that HBL has slightly better turnover than SCBNL and risk is higher in SCBNL than HBL. Therefore, HBL has the better utilization of deposits in income generating activity than SCBNL. It also shows that HBL has better investment efficiency on loan and advance.

- The average value of interest earned to total assets ratio of HBL is 0.0528% which is higher than SCBNL's 0.047%. This implies that HBL is more efficiently using its total assets to earn interest income.

- The trend value of interest earned to total assets ratio on both banks are increasing. Although the net profit to total assets ratios and net profit to total deposit ratios are always higher on SCBNL than on HBL most of the time during the study period. The trend value of net profit to total assets ratios of SCBNL and HBL are also increasing. This shows that SCBNL is more

efficiently using its working fund of assets to earn higher rate of profit than HBL during the study period.

- Cost of services to total assets ratio of HBL is higher than that of SCBNL. Cost of services to total assets of both banks ranges from 0.017% to 0.021% in SCBNL and 0.026% to 0.031% in HBL. Therefore, it is found that profitability position of SCBNL is better than HBL. It would be better to decrease the cost of services of SCBNL.

- While analyzing the correlation coefficient, loan and advances and total deposits of both the banks SCBNL and HBL are significantly correlated. The value of r of SCBNL is 0.924 and 0.973 in HBL. The positive value of r shows the positive relationship between loan and advances and total deposits. It shows that both banks utilize its total deposit on loan and advances effectively but relationships as well as utilization of deposits are better in HBL than in SCBNL. Correlation between investment on government security and total deposits of HBL is highly significant but in case of SCBNL, it is not significant.

- Coefficient of correlation between cash and bank balance and current liabilities of SCBNL shows that there is no significant relationship between these two variables in both banks. The value of r is 0.54 on SCBNL and -0.15 on HBL. It shows that holding of cash and bank balance of HBL is not related with current liabilities. Coefficient of correlation between loan and advances and net profit of SCBNL is 0.923 and in case of HBL it is 0.98. It shows that there is significant relationship between loan and advances and net profit in SCBNL and HBL. It shows that change on loan and advances on SCBNL and HBL do not change the amount of profit significantly.

- While testing the hypothesis of composition of working capital, it has been observed that the mean value of proportion of cash and bank balance, loan and advances and government securities of SCBNL and HBL are significantly different. Similarly, the mean value of misc. current assets of SCBNL and HBL are not significantly different.

- While testing the hypothesis of liquidity management, it has been observed that the mean value of current ratio, quick ratio, cash and bank balance to deposit ratio (excluding fixed deposit), fixed deposit to total deposit and saving deposit to total deposit ratio of SCBNL are significantly different from HBL. It shows that liquidity management policies of these two banks are significantly different.

- While testing the hypothesis of profitability position, it is observed that the mean value of interest earned to total assets, net profit to total assets, net profit to total deposits and cost of services to total assets ratio of SCBNL are significantly different from that of HBL. This shows that both banks has different profitability position.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

As a developing country, Nepal is striving to develop and modernize but economy rapidly on rational and social desired footings. The development process of a country involves the mobilization and deployment of resources. Bank and financial institutions plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding.

Establishment of commercial banks, especially joint venture banks, has continued in response to the economic liberalization policies of the government. As a result, in Nepal there are twenty six commercial banks at present competing with each other in their business. These joint venture banks have concentrated themselves on financing foreign trade, commerce and industry.

This study concentrates on the comparative analysis of working capital position of aforementioned banks SCBNL and HBL. From the perspective of the researcher, these two banks are chosen for study mainly because of accessibility and availability of financial data for latest five year period. The main objectives of the study are:-

- To study the position of current assets and current liabilities.
- To analyze the comparative study of working capital management between sample firms.
- To analyze the composition of working capital, assets utilization and profitability of sample firms.

To fulfill the objective, various statistical and financial tools have been done for analysis of data, which includes ratio analysis as financial tool and trend analysis, correlation coefficient and test of hypothesis as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position, turnover position, capital structure position and profitability position. Under these, main ratios and their trend position are studied in the chapter four.

In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient 'r' is calculated and analyzed. The necessary data are derived from the balance sheet and profit and loss account of SCBNL and HBL for the period of five years from fiscal year 2060/61 to 2064/65 B.S.

5.2 Conclusion

From the analysis of various data it can be said that working capital management is one of the most important parts of every financial institution. The average cash and bank balance and government securities percentage are higher on SCBNL than HBL and average loan and advances misc. current assets percentage is higher in HBL than in SCBNL. The net working capitals of both banks are positive in the study period. Comparatively, HBL has higher net working capital than SCBNL. Both the banks are able to maintain adequate liquidity position to meet the short term or even instant obligations in that period. The current ratio of both SCBNL and HBL are below the normal standard ratio of 2:1. However, the liquidity position of SCBNL is slightly better than that of HBL.

Analyzing the turnover position between these two banks, the HBL is utilizing its funds more efficiently for the profit generating purpose on loan and advances than SCBNL. HBL is utilizing saving deposits more for the income generating purpose whereas SCBNL is utilizing more fixed deposits for the income generating purpose.

In case of profitability position, profitability in terms of interest earned to total assets ratio of HBL is slightly higher than that of SCBNL. Therefore, HBL is more efficiently using its total assets (funds) to earn interest income. The net profit to total assets and the net profit to total deposits ratios are higher in SCBNL than in HBL. Thus, it is concluded that the average profitability ratio of SCBNL is higher than that of HBL. But both the banks profitability position is not satisfactory. To acquire higher profits they should take strong steps for the better management, strong marketing and strategic development etc.

The correlation coefficient of the variables selected for the statistical analysis shows that SCBNL has insignificant relationship with investment on government securities

and total deposits, cash and bank balance and current liabilities but significant relationship with loan and advances and net profit. Similarly, HBL has insignificant relationship with cash and bank balance and current liabilities but significant relationship with loan and advances and net profit and investment on government securities and total deposits.

Therefore, from above all, it can be concluded that there are not much difference between both banks. Comparatively, SCBNL is financially steady and better than HBL. But it does not mean that HBL is not performing well. Both banks are striving for better performance by adopting various new strategies and providing additional services.

5.3 Recommendations

On the basis of the findings of the present study, following recommendations are made:

- Although proportion of loan and advances out of the total current assets of SCBNL is more than other current assets. Similarly, the proportion of loan and advances out of the total current assets of HBL is more than 50% of current assets. Hence, SCBNL should adjust its policy of investment on loan and advances with collected funds and increase the proportion of loan and advances in total current assets.

- Positive working capital represents the sound financial management of the banks. Similarly, negative working capital represents the poor financial management of the banks. In case of sample banks, we found positive working capital. Therefore, to eradicate this situation these banks should be formulated and implemented suitable working capital. There should be keeping optimum size of investment in current assets and current liabilities.

- The liquidity position in terms of current ratio of both SCBNL and HBL are below than normal standard. Therefore, both banks should increase the current assets.

- The turnover of the commercial banks is the primary factor of income generating activity. Total deposits turnover position of both banks is less than unity. Fixed deposits and saving deposits turnover position are also not satisfactory on both banks. Due to the poor turnover position, the chances of bad debts and non-earning idle funds are high. Therefore, both SCBNL and HBL should give proper attention on collection of over-dated loan and advances and utilization of idle funds as loan and advances.

- Proportion of saving to total deposit is more than 50% in both SCBNL and HBL. Comparatively, SCBNL is better than that of HBL.

- Net profit to total assets ratio and net profit to total deposits ratio are higher on SCBNL than HBL. However, interest earned to total assets ratio and the cost of services are higher on HBL than SCBNL. Therefore, HBL should try to reduce its cost by reducing high cost deposits and operating in proper and efficient way so that it can have least operating cost which further maximizes its profitability and shareholder return.

- The unskilled manpower, over-staffing, unsystematic purchase of raw materials, unnecessary expenses, misuse of facilities, heavy expenses on overhead etc. may be the causes for high operating cost. So, both SCBNL and HBL are recommended to pay attention to these aspects.

- From turnover ratios, investment policy of HBL seems better than that of SCBNL during the study period. It is therefore necessary for SCBNL to utilize its deposits in income generating activities by better investment efficiency on loan and advances.

- By implementing the matching working capital management policy instead of adopting conservative working capital policy, SCBNL, as well as HBL, can improve in its profitability in both short and long runs.

- Improper working capital leads to decrease the profitability of the company and leads to ruin the company in the long run. So, SCBNL and HBL are recommended to give emphasis to proper working capital policy to uplift the financial performance of the companies in the competitive age of today.

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